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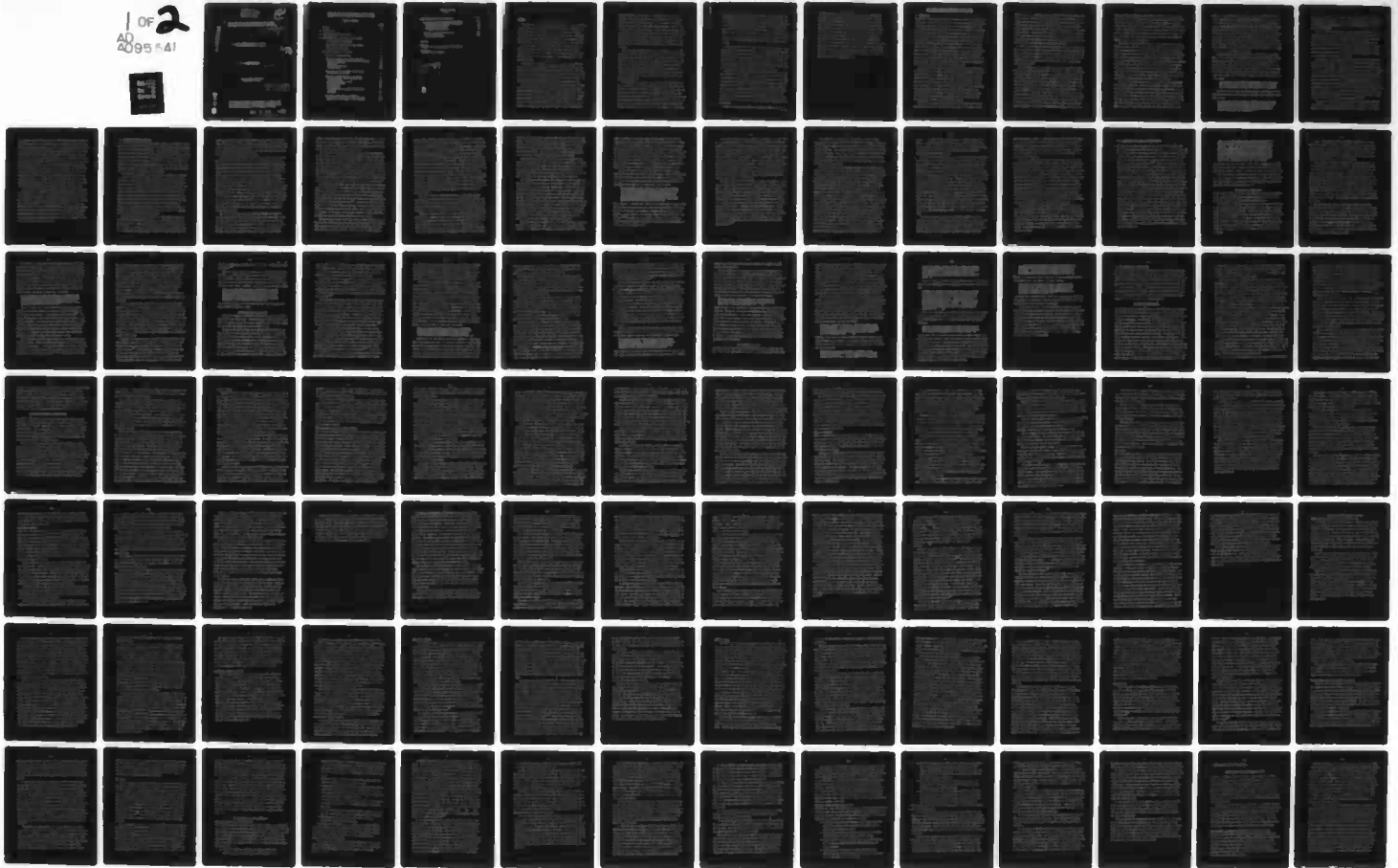
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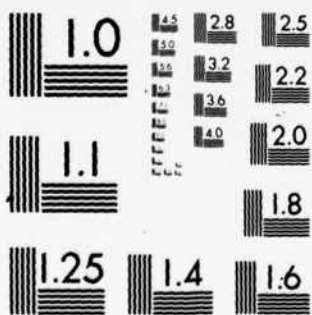
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6 BASIC NEEDS AND THE NEW INTERNATIONAL ECONOMIC ORDER  
An Opening for North-South Collaboration in the 1980s,

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by

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the Overseas Development Council

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BASIC NEEDS AND THE NEW INTERNATIONAL ECONOMIC ORDER:  
An Opening for North-South Collaboration in the 1980s

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SUMMARY

In recent years, much of the debate between North and South has focused on the relative merits or effectiveness of two development strategies. The Third World countries have argued that it is the international economic system that must be changed because it is biased against them. A New International Economic Order (NIEO) will be required if a more equitable distribution of wealth, income, and decision-making authority is to be achieved.

Others, primarily in the North, argue that the primary objective of economic development efforts is to meet individuals' basic human needs (BHN) and that the focus of development efforts should be achieving sustainable improvements in the living standards of the poorest segments of the developing nations. —————→ page V

In international forums, BHN and NIEO tend to be used as counterarguments to each other. The basic needs approach is often attacked as being tantamount to a substitute for growth and as permitting outside interference in developing countries' domestic affairs. The NIEO is criticized as amounting to little more than transfers of wealth from the North to the South, and as tampering unduly with the efficiency built into the existing system.

Ironically, an assessment of both lines of argument brings out a strong degree of complementarity. Both aim at improving economic structures and establishing greater degrees of equity (or at least removing current biases), one at the domestic level and the other at the international level. A basic needs program that does not build on growth and self-reliance would degenerate into a charity program and defeat its intended purpose, and a NIEO not committed to meeting basic needs would be subject to the criticism that it

transfers resources from the poor in rich countries to the rich in poor countries. The conflict between the two strategies lies not so much in substance as in the assignment of accountability for lack of progress implied in each rationale. Basic needs advocates suggest that the bulk of change required is within countries, whereas NIEO advocates posit that international structures which have been biased in favor of the industrialized nations must undergo change. This difference flows from conceptual framework to policy prescription, particularly the requirement for shifts in power, which is the most difficult change for current holders of power to accept.

The basic needs and NIEO constructs are the culmination of extensive histories at both the intellectual and political levels, which have evolved significantly over the past two decades. The former stems from a growing desire to overcome the worst aspects of absolute poverty in a shorter time frame and at a lower cost than would be possible under historical growth paths. The latter emerged from dissatisfaction with the distribution of income, wealth, and power between developed and developing countries, and the desire of Third World nations to achieve the economic counterpart of political independence.

An examination of the effects of the various quantifiable NIEO proposals on basic needs satisfaction in developing countries shows that it is possible to determine the distribution of benefits at the country level, but very difficult to trace the impact on individuals within countries. The reduction of trade barriers would tend initially to benefit the more advanced developing countries which can quickly take advantage of new trade opportunities, but would also assist relative newcomers to expand their exports. Commodity price stabilization would affect a much wider range of countries,


including some of the poorest, since they tend to be the most dependent upon commodity exports. Changes in economic assistance and provisions of debt relief can be targeted, and so could be directed toward the countries with the greatest needs. Improving the security of food supplies would extend the greatest benefits to the relatively large, poorer Third World nations. While efforts to provide adequate, reasonably priced energy supplies would help all non-oil developing countries, the largest initial gains would accrue to the more advanced among them to support higher levels of economic activity.

The potential effect of the various NIEO proposals on the North is more complicated than one might first assume. Direct economic linkages between North and South indicate that prosperity in the developing nations will have a positive impact on the industrial countries. A number of the proposals entail short-term costs in the pursuit of longer-term gains, and a number of them (particularly trade liberalization and commodity price stabilization) could confer fairly immediate benefits on both North and South.


Progress toward achieving either BHN or NIEO has been hindered both by apprehensions over their advocates' real intentions and by the way in which the programs have been presented. Most fears over the intent of the concepts can be allayed through proper interpretation and implementation, with much depending on the performance of the various actors. In addition, negotiators will have to reassess the terminology employed in North-South discussions, given the inertia caused by sensitive reactions to currently used codewords. Either existing language should be defined in such a way as to remove controversial connotations, or a new, more neutral terminology should be developed.

→ Despite the controversial nature of both NIEO and BHN, it is possible





to incorporate elements of both strategies into a set of principles and proposals that might generate greater North-South cooperation. Reforms, both domestic and international, should aim at increasing both the efficiency and equity of economic systems. When there is a tradeoff between these objectives, it should be noted explicitly. Further research should be carried out on the human impact of international transactions, on the efficacy of development strategies already pursued, and on innovative approaches to improve the negotiating process. Policy recommendations include a series of short-term measures to establish a commitment to greater North-South cooperation, a systematic review of all international systems, and special assistance to the poorest Third World nations, including consideration of a new review mechanism to assess progress made by recipients in meeting the objectives of additional aid.



BASIC NEEDS AND THE NEW INTERNATIONAL ECONOMIC ORDER:  
An Opening for North-South Collaboration in the 1980s

I. INTRODUCTION

Two conceptual and strategic constructs have dominated North-South relations in recent years. On the one hand, a number of individual developing countries and international units such as the Group of 77 (G-77) have emphasized the theme that international economic practices and institutions as currently constituted are biased against them, and that systemic changes—leading to a set of structures collectively known as the New International Economic Order (NIEO)—will be required to achieve a more equitable international distribution of wealth, income, and decision-making authority between countries. At the same time, a theme emerging from some scholars, policymakers, and political constituencies (mainly in industrialized countries but building on initiatives from the developing countries) has been that the primary objective of economic development efforts is to meet individuals' basic human needs (BHN), which according to one definition means achieving sustainable improvements in the living standards of those currently too poor to satisfy their essential needs.

As strategies, NIEO and BHN both involve redistribution and restructuring of economic and political power, the NIEO mainly on the international level and the BHN primarily on the domestic level. Each has been utilized as a counter-argument to the other in international forums. The G-77's emphasis on NIEO is seen by many in the North as not necessarily fulfilling basic needs, but perhaps only reinforcing the economic and political positions of richer developing countries and established elites within all poor countries. The Northern emphasis on BHN is viewed by many in the South either as a Northern strategy for thwarting changes in the existing economic order or as a new rationale for interference in domestic developing-country matters.

The divergence in attitudes and responses to BHN and NIEO has contributed significantly to frictions in North-South discussions and relations. Northern

officials continue to talk about the "efficiency" of the existing international economic system, about the impact (or lack thereof) of NIEO proposals on poor people, and about the need for greater equity within developing countries. G-77 representatives tend to press for a Northern commitment to the new economic order, concentrating on equity between states with no consideration of the NIEO's impact on people. These differences in approach have led to what according to some is the current stalemate in North-South discussions, particularly in the U.N. forums where NIEO proposals are under active discussion and, in some cases, negotiation and where development strategies are enunciated.

Is the apparent divergence between BHN and NIEO inevitable, or can some degree of convergence or complementarity between the two concepts be demonstrated? Are the positions of countries and blocs of countries on these issues immutably fixed and locked into opposition, or is there a possibility that a fresh start could yield some accommodation between the two sides and concrete results in terms of policy change?

The relationships between basic needs and the New International Economic Order can be discussed at several levels. At the level of logic it is necessary to determine that, in spite of apparent inconsistencies, the concepts are complementary: If the NIEO leads to more resources for the developing countries, this can contribute to BHN satisfaction, and BHN objectives can be seen to be those for which support for international cooperation can be mobilized. At the level of economics it is necessary to show how the various NIEO measures contribute to meeting basic needs: which countries and which groups within countries would benefit from trade liberalization, from commodity schemes, from debt relief and other provisions, and on what conditions. There would also need to be investigation of how domestic efforts to eradicate poverty can be internationally supported. At the level of international politics it is necessary to

analyze the motives and fears of the negotiating partners and devise ways of clarifying issues and designing institutions and procedures that would eliminate these fears. Finally, at the level of domestic group interests, it would be necessary to examine the resistance from vested interests to the implementation of basic needs approaches and the NIEO--to analyze the extent to which the objections of Southern negotiators reflect the reluctance of particular groups to do more for the poor and to which those of Northern negotiators mask attempts by vested interests to protect themselves.

The thesis of this paper--that convergence is in fact possible--is given impetus by the fact that much greater levels of North-South cooperation are possible and indeed will be crucial, given the sobering outlook for the international economy in the 1980s. This proposition is based in turn on two premises. First, the performance of the international economy is inadequate for a sufficient number of developed and developing countries, both developed and developing, to warrant changes in the system that will yield benefits to all participants. Second, the staggering dimensions of poverty, which is concentrated mainly in Third World nations, and the lack of progress in eliminating poverty or even its worst aspects, cry out for an end to international gamesmanship and a radically increased commitment to attacking the problem from all concerned.

The fact that the world economy is not working well is being acknowledged with disturbing regularity. Forecasts for the growth of output in both industrialized and developing countries have been steadily revised downward since the mid-1970s, when it was anticipated that strong recovery would follow the recession of 1974-75. The partial recovery in the industrialized countries, leading to a 5 per cent real increase in GNP in 1976, supported the World Bank's earlier view that "OECD growth of almost 5 per cent per annum for the period 1976-85 appears feasible,"<sup>1/</sup> a rate that would equal the average rate achieved in the

1960s. But the forecast was reduced to 4.5 per cent per year by July 1977, to 4.2 per cent annually in the World Development Report 1978, and still further, to 3.4 per cent (for the 1970-80 period) and 4.2 per cent (for the 1980-90 period), in the World Development Report, 1979. The World Development Report, 1980 projects even lower growth rates for the 1980s. Not surprisingly, the forecasts for output growth in the developing countries were also revised downward, since "the economic health of the industrialized countries is the key determinant of the growth prospects of the developing nations."<sup>2/</sup> The current projections are for average growth rates in the developing countries of 4.6 per cent in the 1980s, well below the average rates of growth achieved in the 1960s (5.7 per cent) and the 1970s (5.1 per cent).

Accompanying these dampened projections for long-term growth have been high levels of inflation and unemployment and a precipitous buildup of current-account deficits and debt, although the latter are distributed unevenly. A sharp reduction in the volume of world trade is also anticipated. It is not necessary to go through the entire litany of gloomy economic forecasts to come to the International Monetary Fund's recent conclusion that "The world economic picture is rather grim."<sup>3/</sup> The Brandt Commission stated it more dramatically in its report:

At the beginning of the 1980s the world community faces much greater dangers than at any time since the Second World War. It is clear that the world economy is now functioning so badly that it damages both the immediate and the longer-run interests of all nations. <sup>4/</sup>

The dismal outlook for the international economy is paralleled by, and in fact interconnected with, growing misery at the human level. The Brandt report goes on to say:

The problems of poverty and hunger are becoming more serious; there are already 800 million absolute poor and their numbers are rising; shortages of grain and other foods are increasing the prospect of hunger and starvation; fast-growing population, with another two billion people in the next two decades, will cause much greater strains on the world's food and resources. <sup>5/</sup>

The change of environment in North-South relations from that of ten years ago is indicated by the fact that the Pearson Commission Report, published in 1969, was titled Partners in Development, whereas the Brandt Commission report is subtitled A Program for Survival.

In view of these and other analyses, some may reach the conclusion that the international system (or some of its constituent parts) faces imminent collapse, whereas others may conclude that the present combination of problems can be managed as in earlier periods, but at some cost in terms of growth and welfare. Whether or not it is believed that the current situation has reached or is reaching crisis proportions, it cannot be denied that worldwide economic and social conditions are deteriorating, and that arresting this deterioration will require initiatives beyond those attempted in the past.

An opportunity for the formulation and discussion of new initiatives is presented in the global round of negotiations which are planned to commence in 1981 under United Nations auspices. Considering these meetings (or processes) as opportunities is something of an overstatement, however, given the level of acrimony which has characterized the past dialogue and recent preparations to this point. Preparations for the global negotiations have been plagued with familiar conflicts on form (the role of the plenary U.N. forum vis à vis specialized agencies, the timeframe for negotiation, the proper means for arriving at consensus, etc.) and on substance (items for inclusion on the agenda, linkages between issue areas, the degree of change sought, etc.), which raise the questions of whether either North or South really desires the negotiations to begin, and/or is committed to making progress on these issues as measured in concrete policy terms.

Any attempt to induce nations and their leaders toward greater cooperation runs immediately into the B&N "versus" NIEO conflict. Proponents of each side suggest that the opposing strategy has outlived its usefulness, or at a minimum

is irrelevant. This conflict has led some critics genuinely seeking progress in North-South relations to the conclusion that both terms have become liabilities and hence should be replaced by more neutral, less value-laden language. However, it would probably prove counterproductive, if not completely impossible, to discuss North-South relations without addressing NIEO and BHN directly, given the importance and historical significance attached to each. In addition, the language and content of the NIEO is strongly integrated into a host of U.N. documents and established objectives. As a result, the elimination of the NIEO concept would prove extremely difficult if not virtually impossible. The approach used in this paper therefore is to present, as objectively as possible, a brief but complete airing of each concept. Both BHN and NIEO have been abused and misinterpreted by advocate and opponent alike, which suggests the need for a broader understanding of what they actually do and do not mean. Only after each concept is sufficiently demythologized can common ground between the two be sought.

The next section of this paper therefore traces the historical development of the New International Economic Order and basic needs strategies, respectively. It is followed by an analysis of the distributional implications of some of the major elements of the NIEO for both developed and developing countries. The two concepts are then examined in juxtaposition with one another in an effort to determine the real conflicts and complementarities. The final section discusses the uses and abuses of terminology employed in North-South discussions, offers some suggestions for a new approach, and develops a set of policy recommendations and a strategy for negotiations designed to embrace the needs and desires of both developed and developing countries.

## II. HISTORICAL EVOLUTION OF THE NIEO

One of the greatest obstacles confronting those attempting to understand the concept of the New International Economic Order has been an almost universal disagreement as to what NIEO means and represents. Each interested party posits a different definition and emphasis, ranging from broad declarations on economic principles and philosophy to political power shifts and demands for specific changes in the way in which international economic transactions are managed. The diffusion of approaches to NIEO has contributed to the difficulty that North and South have in engaging in meaningful discussions. There is, then, a need to clarify what NIEO means—historically, strategically, and conceptually.

The NIEO and its advocates can most succinctly be described as a "movement"—a coalition of scholars and leaders, largely but not exclusively drawn from Third World nations, organized to press for changes in economic relationships. The diversity of the coalition, which consists of capitalist and socialist, agricultural and newly industrializing, oil-exporting and oil-importing countries, virtually guarantees the absence of any strong consensus around what precise objectives are actually being sought. The numerous and multifaceted objectives emerged first as an outgrowth of the coalition's historical evolution and later became the cement holding the coalition together. It is also important to recognize that the NIEO has been advanced both at the intellectual level, with an emphasis on ideology and theory, and at the political level, which stresses concrete gains in inter-state economic relations.

The fundamental rationale for the NIEO lies in dissatisfaction over the international distribution of power, wealth, and income between developed and developing countries. These gaps were initially attributed to colonialism, but when political independence did not yield rapid gains in living standards, Third World intellectuals and leaders began to examine the economic system itself for



inequities and for what they considered "economic colonialization." The long-term impetus for this scrutiny was widespread disappointment over the performance of aid. More recently the success of OPEC revived and consolidated the NIEO movement by demonstrating the potential power of the South and suggesting the possibility of reversing the direction of dependence.

The origins of the NIEO movement can be traced at least as far back as the mid-1950s, when in the midst of the cold war the United States and the Soviet Union competed actively for allies among the newly independent nations.<sup>6/</sup> These countries, fearing that they might become dominated by one of the super-powers and be used as the staging ground for major power conflicts (as was Spain in the 1930s), sought to avoid direct political and military alliances with either. These concerns led to the creation of the Non-Aligned Movement, the concept of which was first outlined at the 1955 Bandung Conference, attended by officials representing twenty-nine African and Asian developing countries. The non-aligned group, whose membership has increased to ninety-five, held six summit conferences between 1960 and 1979: Belgrade in 1961, Cairo in 1964, Lusaka in 1970, Algiers in 1973, Colombo in 1976, and Havana in 1979. Initially the group's efforts were focused on the political issues of decolonialization, independence, and neutrality rather than on economic concerns. It did, however, create a basis and a model for a unified Southern bloc that would increasingly turn its attention toward economic matters.

The Non-Aligned Movement itself has gradually broadened its mandate to include economic issues: the first major step came at the Lusaka summit, where the major topics for discussion were individual and collective self-reliance (the latter was to become a strong element of the NIEO). Over time, most components of the NIEO were incorporated into declarations of the Non-Aligned Movement, and recent proclamations, such as that issued at the 1979 Havana

summit, contain detailed positions on nearly all NIEO issues. While the Movement has continued to press for a new economic order, however, it essentially remains the political counterpart of the unit most centrally involved with the formulation and pursuit of the NIEO—the Group of 77.

The Group of 77, whose roots can be traced to the U.N. General Assembly session of 1963, came to the forefront of North-South economic relations at the first U.N. Conference on Trade and Development (UNCTAD I) in 1964. Consisting initially of seventy-seven developing countries (at the conclusion of UNCTAD I), the Group now contains about 120 members. The G-77 is for all intents and purposes the "South," as identified in North-South economic conferences. From the outset, the raison d'être of the G-77 has been to press the industrialized countries to modify international economic regimes in ways which would contribute to more rapid rates of economic growth within the countries of the Third World.<sup>7/</sup>

The decade following UNCTAD I was a period of institutional and substantive growth for Southern unity. The UNCTAD Secretariat became a focal point for the development and enunciation of a Southern view of international economic relations. Built largely around the thinking of UNCTAD's first Secretary-General, Raul Prebisch, this view holds that the world's economic practices systematically discriminate against developing countries.<sup>8/</sup> It suggests that rather than maximizing production and distributing it equitably, the capitalist system based on comparative advantage tends to enrich the "center" (the industrial countries) at the expense of the "periphery" (the developing countries), thereby reinforcing the persistent and growing inequity between rich and poor nations.

The major example cited to confirm the center-periphery theory has been the dependence of Third World countries on primary commodity exports, whose terms of trade vis-a-vis manufactured goods have been seen as deteriorating over time. Often mentioned is the case of rubber: In 1960, 25 tons of rubber provided

enough foreign exchange to purchase six tractors, but in 1974 the same quantity of rubber was only worth two tractors. Such examples such as this may have more dramatic appeal than analytical validity, but the general argument is not without some justification. Of the forty-five commodities covered in the World Bank's Commodity Trade and Price Trends, the constant dollar prices of thirty-three basic commodities fell (although the base end years are not strictly comparable) between 1960 and 1978, and only twelve increased. Although the declining terms-of-trade argument was considered doubtful in earlier years, more recently terms of trade have come to be acknowledged as a problem. The managing director of the International Monetary Fund recently stated: "The large rise in the current account deficit of the non-oil LDCs from 1977 to 1979 can be wholly attributed to two factors: deterioration of the terms of trade and larger interest charges."<sup>9/</sup> In addition, fluctuations of the international prices of commodities have imposed high degrees of economic instability among exporting countries. These factors led to calls for stabilizing the prices and improving the terms of trade of raw materials exports.

Due to the inability of Third World countries to raise their commodity export earnings (exceptions being OPEC and a few other developing nations), the commodity issue has remained a central feature of the NIEO. However, other economic concerns, some related directly or indirectly to commodity problems, have resulted in the NIEO being extended to many other areas of economic interchange.

Developing countries felt that their export earnings would increase if they processed their commodities locally into intermediate or consumer products. But they were confronted with tariff structures in developed countries, as well as other factors such as freight rate schedules, which discriminated against imports of processed goods relative to raw materials. They therefore recognized the need to diversify into exports of manufactured products in which they had a

comparative advantage—primarily consumer goods requiring labor-intensive production. While this strategy proved immensely successful for certain advanced developing countries, others encountered intense competition and rising non-tariff barriers, such as the tightening of the Multifiber Agreement, which limited growth potential. These constraints have influenced developing countries to press for increased access to industrial-country markets.

Because increasing current-account deficits had to be financed, large amounts of private and public debts were accumulated. Regardless of the actual causes for the debt buildup (imports of higher-cost basic goods such as food and oil, economic mismanagement, overly easy credit from Northern banks, and so forth), many developing countries felt they were victims of a debt trap not of their own making. As a result they demanded debt relief in some form.

The combination of their domestic and international economic dilemmas and their dependence, actual or perceived, on the markets, foreign investment, and technology of the industrial countries brought many in the Third World to the conclusion that their economic fate was not in their own hands. A fundamental change in international economic relations, in principle and in practice, was required. This would involve among other things: a code of conduct to govern the activities of multinational corporations, a greater decision-making role for developing countries, access to technology on more favorable terms, and general or selective "delinking" from dependencies on the North—all of which implied much greater levels of cooperation among developing countries, or "collective self-reliance." Thus the NIEO gradually became a package of demands for reform in nearly all areas involving international transactions.

The early achievements of UNCTAD and the G-77 in implementing the NIEO were modest but not insignificant. UNCTAD was to become the primary institutional vehicle for the expression of G-77 demands for economic reform.<sup>10/</sup> UNCTAD I at

Geneva and UNCTAD II at New Delhi (1968) focused on elaborating the South's comprehensive view of developed-developing country economic relations. In addition, the Third World pressed for changes in two areas of trade policy--preferential access for developing-country exports into industrial-country markets, and legal acceptance of the principle of non-reciprocity in the trading system.<sup>11/</sup> Little substantive progress was achieved at UNCTAD III (held in Santiago in 1972), due to some extent to the public attention devoted to the host country (Chile under Allende), but probably more so to the fact that prevailing international economic and financial problems diverted attention from North-South issues.

The year 1973 marked the watershed for North-South relations and the transition of the NIEO from a latent to an active phase. First, in September the political and economic voices of the South were combined at the Algiers summit conference of the non-aligned nations, when the group embraced most of the G-77 and UNCTAD economic agenda as an integral part of their position.

This convergence of goals, strategies, and work programs between the Non-Aligned Countries and the G-77 was in and of itself bound to increase the organizational and institutional capacity of the South to press its demands for economic (and associated institutional and political) reforms in the plethora of international and regional organizations and specialized agencies to which most developing countries belong and in which they have a major voice. The greater the unity, the stronger the voice.<sup>12/</sup>

This coalescence of Southern unity, which was the culmination of a decade or more of expressions of dissatisfaction with levels of economic progress in the Third World and of frustration with supposedly inadequate Northern responses to proposals for change, ushered in what has been termed a strategy of Southern "trade unionism."<sup>13/</sup> The Algiers conference adopted an "Economic Declaration" and an "Action Programme for Economic Cooperation," and called for the establishment of a "new international economic order."

If the Southern "trade union" was inaugurated in September, its bargaining power was greatly enhanced a month later with the Arab oil boycott and OPEC's subsequent success in unilaterally raising oil prices fourfold. Certainly, conditions were ripe for a shock to the North.<sup>14/</sup> International grain markets had recently undergone upheavals due to poor harvests and export embargoes. The world was experiencing a boom in demand for commodities to support record levels of growth in the North, and the Club of Rome's "limits to growth" report had recently predicted major resource scarcities. Finally, the United States was in the process of withdrawing its armed forces from Vietnam after a frustrating military engagement which had tarnished its international image and created a great deal of internal divisiveness over what it could and should accomplish overseas, particularly in the Third World.

The stage was thus set for an unprecedented number of international conferences to consider various aspects of and strategies toward the NIEO. At the request of Algeria (then chairing the Non-Aligned Movement), the U.N. General Assembly summarily arranged a Sixth Special Session to be held in April 1974 to study the problems of raw materials and development. Over the objections of several industrial countries, the General Assembly adopted, without a formal vote, a "Declaration and Action Programme on the Establishment of a New International Economic Order." In December the General Assembly passed a second resolution, the "Charter of Economic Rights and Duties of States" (with six developed countries voting against and ten abstentions), under which the Third World sought to establish the right of commodity producers to cooperate to achieve more favorable terms and the duty of consuming countries to refrain from retaliation.<sup>15/</sup>

Two months later, in February 1975, participants in the Third World Conference in Dakar proposed linking energy negotiations to general North-South economic issues in order to elicit the overt support of oil-exporting countries for NIEO objectives. This strategy was endorsed in March by OPEC at their summit conference in Algiers. Also in March, the U.N. Industrial Development Organization (UNIDO) Conference in Lima adopted the "Lima Objective" of increasing the developing countries' share of world industrial output from 7 per cent (in 1975) to 24 per cent in the year 2000.

In May, after having failed repeatedly to engage the OPEC members in discussions on the energy issue alone, the United States indicated a willingness to discuss other commodities on a case-by-case basis. Its more accommodative stance was elaborated at the Seventh Special Session of the U.N. General Assembly in September, during which a number of specific measures to promote North-South cooperation were proposed by the United States. This broadening of the North-South "agenda" prompted action both within and outside the U.N. system. In December 1975, the Conference on International Economic Cooperation (CIEC) first met in Paris, engaging twenty-six countries and the European Community in a formal "North-South Dialogue." At UNCTAD IV, held in Nairobi in May of the following year, the Third World once again emphasized commodity issues. CIEC ended in 1977 after eighteen months of mutually frustrating negotiations: the industrial countries were primarily interested in discussing energy, whereas representatives from OPEC and other Third World countries refused to focus on those issues unless the industrial countries gave greater consideration to their commodity, debt, and other problems. However, participants at the final session did agree in principle on the creation of the Common Fund to finance agreements to stabilize commodity prices and on a \$1 billion Special Action Program for the least developed countries. (Most analysts have concluded that this program was not



"additive," but instead involved the reallocation of previously appropriated aid funds.) At an UNCTAD ministerial meeting in March of 1978, agreement in principle was reached on measures for granting debt relief for the poorest countries in the Third World, but donor countries retained the right to implement individualized programs of debt relief.

By early 1979, the accommodative phase of the dialogue had been transformed into rather open confrontation. Negotiations for an international wheat agreement collapsed over a dispute concerning acquisition and release prices. With the exception of Argentina, the developing countries declined to initial the agreement reached in the Tokyo Round of multilateral trade negotiations, signaling their disappointment with the trade package, its negotiation, and the failure to arrive at an acceptable safeguard code. UNCTAD V, held in Manila, was largely a rhetorical exercise castigating the North's protectionism and its general intransigence on other NIEO issues. The detailed G-77 proposals worked out previously at their Arusha meeting received little if any attention from the North. The Non-Aligned Movement held a well-publicized summit conference in Havana in August 1979. While economic issues were relegated to the background by the more dramatic political confrontations over delegation seating and the rivalry between moderate and radical states, the meeting had the effect of polarizing Northern and Southern positions. The heightened level of mutual frustration and the solidification of views became apparent at UNIDO III, held in New Delhi in February 1980.

The deterioration of the climate for North-South discussion is due in large part to the onset of worldwide recession and higher oil prices; one result is the dimming of prospects for meetings planned for 1981. The U.N. General Assembly's Special Session on development cooperation in September 1980 did succeed in preparing a new International Development Strategy for the Third



Development Decade, although some participants noted reservations. The Special Session failed, however, in its other assigned task--that of establishing an agreed-upon set of procedures and an agenda for global negotiations on North-South economic relations initially planned to begin early in 1981. Whether or not current efforts to overcome remaining differences on these matters will succeed is open to question.

It should be acknowledged in conclusion that a number of positive steps have been achieved in North-South economic relations. Systems of trade preferences have been put into place, although their significance in stimulation of Third World trade is still unclear. The Common Fund may soon go into operation, even though there are fewer commodity agreements in active operation now than there were prior to 1973. Measures of debt relief have been instituted in some instances, and have been agreed upon in others. Several important reforms within the International Monetary Fund, including the creation of additional financing facilities, have benefited the developing countries, and levels of assistance from the multilateral development banks have increased rapidly. However, these and other measures have been limited in scope, particularly in view of Third World needs, and so the G-77 continues to press for the implementation of a more comprehensive New International Economic Order.

Beneath this agenda of complex economic issues and diplomatic maneuvers lies the hidden agenda of the NIEO movement--the demand for a restructuring of power relationships so that the developing countries will have a greater effective voice in the management of the global economy. While the subject of power is often cloaked in debates over such matters as institutional integrity and negotiating frameworks, it remains at the core of the South's program for change. It also remains the single most difficult change for the industrial countries to accept.

### III. DEVELOPMENT OF THE BASIC HUMAN NEEDS CONCEPT

The idea that the basic requirements of all the people should be satisfied before the less essential needs of the few has long been evident in many development policies, and, as such, had been universally accepted. Because the origins of basic needs can be traced to many of the world's religious leaders, philosophers, and thinkers, the fundamental principles underlying the concept are neither new nor particularly innovative.<sup>16/</sup> Today, basic needs are viewed as being synonymous with human rights to the extent that, no matter how poor the society, everyone has the right to benefit from fundamental goods and services that are produced.<sup>17/</sup> The basic needs approach to development urges commitment to the elimination of the worst aspects of absolute poverty on an accelerated basis—most frequently specified as the end of this century. It is intended to improve the income-earning opportunities of the poor, the public services that reach the poor, the flow of goods and services to meet the needs of all members of the household, and the participation of the poor in making the decisions which affect them. The concept of "basic needs" is a dynamic one—in that the needs which a society regards as "basic" vary to some extent with level of development, climate, social and cultural values, and other factors. Basic needs are, however, generally understood to encompass minimum levels of personal consumption and access to essential health, education, and other social services. A key aspect of the basic needs approach is that it aims to fulfill such essential needs in a shorter period and at lower levels of per capita income than has generally been done in the past, or than would be achievable by expansion of income through economic growth alone. Basic needs are generally assumed to have three dimensions:

First, they include certain minimum requirements of a family for private consumption: adequate food, shelter and clothing are obviously included, as would be certain household equipment and furniture. Second, they include essential services provided by and for the community at large, such as safe drinking water, sanitation, public transport, and health and educational facilities. A basic-needs oriented policy implies the participation of the people in making the decisions which affect them. Participation interacts with the two main elements of a basic-needs strategy. For example, education and good health will facilitate participation, and participation in turn will strengthen the claim for the material basic needs. 18/ (Emphasis added.)

Linking these dimensions is the need to raise levels of productive employment, which is the primary means of paying for essential goods and services and remains the key variable in efforts to satisfy basic needs on a sustainable basis.

This section traces the historical evolution of the basic needs concept, noting its rationale, the international studies and conferences that addressed the subject of basic needs satisfaction and made progress in refining the concept, and current Third World reactions to it.

#### The Rationale for Basic Needs

The basic needs concept emerged as a major strategy for combining and augmenting the generally one-dimensional development approaches—growth-oriented, employment-oriented, and poverty-oriented—that predated it.

The discussion of development strategies began in the 1950s with the advent of the heavily capital-intensive, growth-oriented approach aimed at increasing output by speeding capital formation. A higher rate of GNP growth was thought essential to raise standards of living. The bias toward capital-intensive technology paid little attention to the expansion of employment levels, and as a result retarded the "trickle-down" that was supposed to benefit the poor. The failure of rapid GNP growth as an effective strategy became evident as the share of income accruing to the poorest groups in some developing countries decreased.

In 1969, the International Labour Organisation suggested in its World Employment Programme that the focus of development should shift from growth toward employment. This was viewed as "the principal means of spreading the benefits of economic growth more evenly throughout the economy,"<sup>19/</sup> through simultaneous improvements in output and employment resulting from the substitution of labor for capital in the production process.

Almost immediately attempts to implement this approach bogged down in a host of procedural and structural difficulties. Demand had to be reoriented toward labor-intensive output, and in certain situations the transition could not be made without incurring huge costs. In addition, while not reducing unemployment to any significant degree, this approach raised expectations of greater employment opportunities, causing rural-to-urban migration and further unemployment. Finally, the incidence of underemployment in the South was aggravated following implementation of this policy. Critics suggested that "employment" as interpreted in the industrial countries is not the appropriate concept. Those who were most poor were working long, hard hours in unremunerative and unproductive jobs. The root problem, therefore, was not unemployment but poverty.

The recognition that efforts to redistribute income through greater access to employment excluded the poorest groups in many developing countries then turned the debate toward the problems of income distribution in the Third World—the (anti) poverty-oriented approach. Popularized by a study conducted by the World Bank and the Sussex Institute for Development Studies that was published in 1974 as Redistribution With Growth, this approach proposed a redirection of consumption and investment toward the poor through a transformation of social structures to achieve a reallocation of productive resources in favor of explicitly defined poverty groups.

This strategy of raising minimum income above subsistence level ran into difficulties on several counts. The attempt to improve income-earning opportunities for the poor necessitates involvement by managerial personnel earning above-average incomes. As a result, at least some benefits reach a section of the "non-target" population. More important, the inherent bias in the institutional structure toward the ruling class sees to it that they benefit substantially from consumption and investment policies designed to help the poor. Attempts to correct for biases must, by definition, be channeled through the elites, who have little desire to reduce their own benefits.

It is no good planning to eradicate poverty on the basis of an analytical framework that assumes total receptivity to proposed change if the prevailing political and social structures are characterised by contending factions and interest groups which stand to gain or lose from the proposed policies and the changes they entail in socio-economic status and political influence. <sup>20/</sup>

This is, in effect, what a basic needs-oriented policy would attempt to correct for. The question becomes one of reducing inequality versus meeting basic needs or, more succinctly, "egalitarianism or humanitarianism?"<sup>21/</sup> The urgency in meeting basic needs is more compelling than reducing inequality for a number of reasons. First, equality as an objective tends to pale in significance when compared to meeting basic needs. Second, meeting basic needs has a greater moral imperative than achieving equality in income. Finally, while reducing income inequality is a highly abstract concept, basic needs present governments, planners, and donors with precise goals to be met.

Other advantages of the basic needs concept over its predecessors lie primarily in its focus. "Whereas conventional anti-poverty programmes are directed at target poverty groups . . . the basic needs approach is founded on the premise that poverty in most developing countries is widespread and that action should be directed at the population as a whole."<sup>22/</sup> It is important to note that the

basic needs policy does not eschew growth in favor of employment promotion and income distribution--the acceleration of economic growth is an important precondition for the satisfaction of basic needs. Hence, the basic needs concept draws on the positive features of its predecessors without making them its focus. Moreover, basic needs targets go beyond the eradication of absolute poverty--"they extend to the satisfaction of needs over and above the subsistence level as a means of eliminating relative poverty through a continuous process of economic development and social progress."<sup>23/</sup> The basic needs approach involves mass participation in the development and implementation of policy prescriptions, which ensures that the needs of the people are adequately represented.

Perhaps the most important justification for a shift to the basic needs approach is not its humanitarian aspect, but its practicability with respect to mobilizing support for aid. For a number of years the donor countries have been disturbed that not enough of their aid has reached the poor. This has resulted in public pressure on aid-giving agencies, both in the United States and elsewhere in the North, to justify programs that have the effect of supporting rich elites in the South. There has also been a growing unwillingness to authorize new aid programs unless it could be proven that the poor would benefit directly. The evidence would come to be calculated in terms of achievements in and commitments to meeting basic needs.

The modern basic needs strategy of the United States was formulated in the "New Directions" legislation of 1973--the Foreign Assistance Act of that year sought to "change our whole approach to development by concentrating on the needs of the poor."<sup>24/</sup> By focusing on the fundamental problems of the poorest majority (i.e., food and nutrition, population and health, education and human resource development), as well as on assistance to developing countries' long-term development objectives, the Act sought to "help improve the lives

of masses of people who live under conditions of extreme poverty, malnutrition, and disease."<sup>25/</sup>

This was a marked departure from previous U.S. aid schemes which had concentrated on high-technology, capital-intensive, industry-based growth for almost two decades. Although the new focus met with some initial resistance, it was hailed as the "end-all" of the South's problems and rapidly gained support within the United States. In essence, the aims of the new legislation included:

Fewer large scale capital transfers, concentration on a few key sectors, a shift from capital-intensive to more labor-intensive policies and programs, greater participation of the poor in the development process, letting the host country take the lead... small producer economies, more equitable distribution of wealth, greater social justice...helping people rather than influencing governments, a less intrusive aid relationship. <sup>26/</sup>

U.S. aid policy continues to follow these aims, which figure prominently in the latest Foreign Assistance Act (1979).

#### International Formulations of BHN

Since 1973 a number of international conferences have focused directly or indirectly on basic needs issues. These meetings were convened at both the private, "intellectual," and the more formal, intergovernmental, "official" levels, similar to those that shaped and refined the NIEO strategy.

Perhaps the earliest forum where basic needs was discussed substantively was the meeting of social and natural scientists and U.N. officials from both North and South, held in Cocoyoc, Mexico, in 1974. Sponsored by UNCTAD and the United Nations Environment Programme (UNEP) in cooperation with the Mexican Government, the focus of the symposium on Patterns of Resource Use, Environment and Development Strategies was "to redefine the whole purpose of development," the goal being "not to catch up, but to ensure the quality of life for all with a productive base compatible with the needs of future generations."<sup>27/</sup>

This was to be done by the satisfaction of a) the basic needs of human beings—food, clothing, shelter, health, and education; b) other needs such as freedom of expression and impression; and c) the right to work, which includes the right to finding self-realization in work that is not alienating.

A major idea discussed at Cocoyoc was that of self-reliance as a key to development, which required "fundamental economic, social and political changes" in the structure of society, as well as the development of an inter-reliance. Changes would include decentralization of both the world and national economies—enabling personal participation—and "a temporary detachment from the present economic system."<sup>28/</sup>

Other proposals that emerged for the implementation of these ideas represented an equally interesting combination of basic needs and the NIEO. Many involved the satisfaction of basic needs as soon as possible. To attain this end, the institution of a new, "more cooperative and equitable" international economic order was considered necessary. Rejecting the idea of growth first, and justice in the distribution of benefits later, the conference concluded that any process of growth that does not lead to fulfillment of basic needs—<sup>29/</sup>"or worse even disrupts them"—is a travesty of the idea of development.

During the next two years basic needs was subject to a great deal of discussion. The Third World Forum, a worldwide association of leading social scientists and intellectuals from the South, was organized in 1975 to "facilitate the creation of a more just world order,"<sup>30/</sup> in which the basic needs of every human being in terms of clothing, housing, education, medical care and employment are adequately covered "in the context of self-reliant, needs-oriented, endogenous development for their own societies."<sup>31/</sup> The participants agreed that while there were many separate paths to development, there were certain principles on which new development strategies must be based.



One of these principles focuses directly on "basic needs and on a meaningful participation of the masses in the shaping of economic and social change." Although the participants also reviewed the NIEO and what needed to be done to implement it successfully, no mention was made of the linkages between the NIEO and basic needs; separate studies of the two were commissioned.

The next major international declaration concerning basic needs emerged with the publication of What Now--Another Development by the Dag Hammarskjold Foundation in the fall of 1975. Put together in five months of intensive meetings and research, the report draws considerably on the Founex Report (June 1971), the Cocoyoc Declaration, and the Third World Forum, as well as on a number of international discussions that took place between 1972 and 1975. Nevertheless, it refined previous features of the basic needs concept and presented some new ideas. As before, "endogenous and self-reliant growth" were emphasized as key factors for "another development." The report's major argument was that the satisfaction of basic needs (food, habitat, health, and education) should be at the core of the development process. The report maintained that it is not the absolute scarcity of resources which explains poverty in the Third World but rather their distribution.

Needs are as much psychological as material. To satisfy the former while forgetting the latter would neither be consistent with these values nor indeed possible. However, they form a hierarchy insofar as the satisfaction of survival needs obviously determines the possibility of satisfying the others. 32/

Carrying out this task requires structural transformation, including reform of the ownership and control of the means of production "in such a manner as to prevent the appropriation of the economic surplus by a minority." Furthermore, institutional change at the political level is implied in the transformation. The democratization of power would be a prerequisite to the "abolition of repression and torture" and would be aimed "at allowing all those

concerned, at every level of society to exercise all the power of which they are capable."<sup>33/</sup> At the time this was a fairly radical approach to the basic needs problems of developing countries--as it is even now.

The report concluded that needs should be defined according to a normative scale, making explicit the desired social values; that groups deserving of immediate aid be identified, that a system to monitor needs satisfaction be established; and that the distribution of available resources be examined for the degree to which they are appropriated by certain groups in order to assess the potential of a redistribution policy.

Until 1976, private and official efforts had approached the basic needs concept piecemeal, without attempting to examine it in its entirety. The importance of the 1976 ILO World Employment Conference lay not merely in its ability to address the many facets of basic needs, but also in its being convened at the intergovernmental level. Wider in scope than previous efforts, it included discussion on development strategies in the South as well as in centrally planned and market-economy industrialized countries.

The central theme of the conference was the importance of making basic needs satisfaction the prime focus for national and international development efforts. For the first time, the distinction between personal and community needs was made. The former included requirements for personal consumption--food, shelter, clothing, and household equipment; the latter consisted of safe drinking water, sanitation, public transport, and health and educational facilities. An additional "need" was participation by the people in decision making.

The ILO report, Employment, Growth, and Basic Needs, concluded that basic needs satisfaction was not the only goal of development, but only the "minimum objective of society." The report was also one of the first to look realistically at the goal (the year 2000) that had been set for meeting basic needs,

explicitly stating that basic needs goals could not be met in some countries by that year without "action on the all fronts, both redistribution and growth together. To be of use, this redistribution must result in the production of more basic goods and services. The provision of adequate employment opportunities is an essential ingredient in this strategy."<sup>34/</sup>

One of the more ambitious studies of basic needs was carried out in 1976 by the Bariloche Foundation in response to the Club of Rome's Limits to Growth. This study, Catastrophe or New Society? A Latin American World Model, examined the question of whether or not it is possible to satisfy the basic needs of the world's population without endangering the environment or exhausting natural and physical resources. The Bariloche report concluded that sociopolitical obstacles and not the finiteness of resources would pose the dominant problems in the elimination of poverty. Working through mathematical models that set specific targets for food, housing, education and health, the analysis suggested that with complete equality in the distribution of goods and services obtained, basic needs targets in Latin America could be met by 1990 and in Africa by 2000, but it would not be possible to meet these goals in Asia even by the turn of the century.

The world envisioned by the Bariloche scholars, while essentially similar to that of the earlier reports, would emerge only after an emphatic renunciation of the present system of production and an embracement of egalitarianism.

The final goal is an egalitarian society, at both the national and international levels. Its basic principle is the recognition that each human being, simply because of his existence, has inalienable rights regarding the satisfaction of basic needs—nutrition, housing, health, education—that are essential for complete and active incorporation into his culture. <sup>35/</sup>

A major element of this society would be the elimination of the concept of property rights. Private and state ownership of land would be eliminated. Built-in

management and administration controls would prevent the attainment of power through property ownership.

Another milestone in the development of the basic needs concept was the publication in September 1976 of Reshaping the International Order (RIO), the Tinbergen report to the Club of Rome. While it addressed such broad problems as the arms race, population, food, environment, and energy, the report stressed that the primary aim of the world community is "to achieve a life of dignity and well-being for all people."<sup>36/</sup> This fundamental aim would be implemented via new development strategies--basic needs satisfaction, poverty eradication, self-reliant and participatory development, and balanced ecodevelopment.

When bare survival has been guaranteed, the satisfaction derived from labour assumes a more important role. The satisfaction of needs implies that each person available for and willing to work should have an adequately remunerated job. . . . <sup>37/</sup>

Equally important is the satisfaction of non-material needs such as education and recreation. Perhaps the most important development to emerge from the RIO conference was the formulation of basic needs indicators. Stating that indicators must include a social component as well as per capita income, the report proposed national objectives to be met by 2000 by all countries. The targets set were a life expectancy of 65 years or more, a literacy rate of at least 75 per cent, an infant mortality rate of 50 or less per thousand, and a birth rate of 25 or less per thousand. This infant mortality target and a life expectancy target of 60 years have recently been incorporated into the new International Development Strategy of the United Nations.

#### Recent Southern Reactions

In the last half of the 1970s, the South became increasingly convinced that the basic needs concept was a tactic to distract attention from the NIEO, even though

Southern intellectuals and leaders had been instrumental in formulating the concept. The developing countries became steadily more "hard-line" in their NIEO demands and ignored basic needs entirely in international forums. When the issue was raised by the North, it was invariably dismissed peremptorily. The position voiced by the South is that basic needs objectives are to be achieved through economic growth, which in turn is to take place through implementation of the NIEO. Basic needs satisfaction is not seen as an end in itself. Although this is a typical Southern response to most basic needs proposals, evidence of Southern support for the concept exists even in these apparent rejections.

The main Southern complaint is with the degree of emphasis placed on the concept, and not so much with the concept per se. This feeling is substantiated by such statements by the Group of 77 as that at the U.N. Preparatory Committee for the New International Development Strategy, the Arusha Declaration made prior to UNCTAD V (May 1979), and that at the World Conference on Agrarian Reform and Rural Development (WCARRD) in Rome in July 1979. The 1979 report of the Chairman of the Preparatory Committee states, with respect to the "global attack on mass poverty," that the United States,

called for a substantial reduction in the number of people living in absolute poverty. I am quite sure that the distinguished delegates recognize that this objective, though an extremely important one for the strategy, cannot be pursued in a vacuum, without taking into account the kind of world in which we live--both internal order and international order. . . . 38/

Although at first glance the Arusha Declaration's specific reference to the least developed countries appears to be a rejection of basic needs elements elsewhere in the South, it is in fact supportive of the concept. For example, the report states that,

the satisfaction of basic human needs of the people and the eradication of mass poverty must have a high priority in economic and social development. . . . [A] new Programme of Action should provide direct and indirect financial support for the improvement

of nutrition, health, housing, education, transport and communications, and employment in each of the least developed countries. Such expenditures should accelerate economic progress by providing needed income in rural areas and among the urban poor. . . . The aim should be to provide fully adequate minimum standards for the poor as soon as possible and in any event by the end of the decade. 39/

Similarly, although basic needs appeared under the guise of "rural development," the final recommendations of the WCARRD had a strong basic needs orientation.

Programmes for providing the basic needs in the are as of health and nutrition, sanitation, drinking water, housing, rural electrification, link roads, etc., should form part of integrated rural development. These programmes should be directed to specific target population and areas, giving due regard to the weaker sectors, avoiding the bias of programmes prepared on the basis of preconceived notions. Consequently, rural poor should be encouraged to identify their own needs. Policy instruments chosen by the countries should be effective in establishing a viable institutional support structure to change conditions in depressed areas. . . . 40/

In the April 1980 Report of the Preparatory Committee for the new International Development Strategy, the basic needs concept was advanced once again. The "informal proposal" by the G-77, while resolutely supporting the NIEO, added that,

countries will pursue the objectives of reduction of poverty and promotion of employment opportunities through enhanced economic growth, which will include measures to ensure a fair distribution of the benefits of development and institutional reform. 41/

In this report, the G-77 outlined measures designed to promote education, expand health care facilities, reduce infant mortality, and provide basic shelter and infrastructure as well as proposals designed to improve transport and water facilities and to increase participation by the people. Most of these measures, as well as specific quantified targets measuring social progress, were included in the International Development Strategy adopted by the U.N. General Assembly. One can conclude from these developments that the South is objecting to the procedural rather than the substantive issues involved:

. . . there is absolutely no reason to think that the South will refuse to accept a major emphasis on basic human needs as part of a negotiated North-South strategy to accelerate the process of development. The "rejection" of the concept to this point is in very substantial degree directly attributable to a dismayingly inept presentation of the case for the concept by the North. 42/

However, it is essential to keep in mind that the South is absolutely unwilling to endorse the basic needs approach as its main priority.

It is necessary for developing countries to guard against the introduction of new concepts by developed countries, norms and principles, such as "basic needs," access to supplies, graduation, selectivity, etc., which are being suggested but are in fact totally incompatible with the development requirements and aspirations of developing countries. 43/

The message these statements deliver is that basic needs should be viewed less as a panacea to the multitude of problems confronting developing countries and more as one of the many objectives of development.

In defense of the south, it should be pointed out that the vast bulk of BHN-oriented resource mobilization and policies are and always have been undertaken by the developing countries themselves. In fact, some of the Southern governments who acted on these policies before they became fashionable were castigated as indulging in premature welfarism, inadequate self-help, or worse. It has even been suggested that those who are truly serious about BHN are still likely to be attacked as leftist and as threats to international peace. If this is true, a major change is necessary in the way in which the developed countries view and present basic needs.



#### IV. THE JUXTAPOSITION OF BHN AND NIEO

To this point the basic needs and NIEO strategies have been discussed separately, with only brief mention of their interrelationships. If these strategies remain impervious to change and isolated from each other both conceptually and tactically, there is little likelihood of significant movement by either North or South from established positions. However, determining that major elements of BHN and NIEO are in fact complementary rather than contradictory would lay the foundation for the development of areas of consensus. The search for complementarity needs to address the connections between BHN and NIEO at the analytical levels of logic, economics, international politics, and domestic politics.

##### The Logic of Complementarity

On superficial inspection there appears to be a conflict between the two concepts. The NIEO aims at revising the rules of international economic relations between nations and is of particular concern to governments, whereas BHN is concerned with the needs of individuals and households. The NIEO deals with issues such as commodity price stabilization and support, indexation, the Common Fund, the Integrated Commodity Program, debt relief, the SDR link, trade liberalization, trade preferences, technology transfer, transnational firms, and so forth, whereas BHN deals with food, water, health, education and shelter. The NIEO aims at unconditional, automatic transfers of resources (or at correcting past reverse transfers), whereas basic needs implies a highly selective approach, aiming directly at the alleviation of deprivation of targeted groups. The NIEO would eliminate conditions imposed on resource transfers, a BHN approach would make transfers conditional upon their reaching the poor. Many of the schemes proposed in the NIEO are likely to benefit the middle-income countries, and some very small (already relatively over-aided) countries, in whose economy foreign trade plays an important part, rather



than the large, poor countries of Asia; and, within these countries, the proposed schemes may benefit the middle- and higher-income groups, such as exporting industrialists (possibly multinational corporations), large farmers, plantation owners and banks, rather than the urban and rural poor.

But the logical conflict between BHN and the NIEO is only apparent. The differences between the two approaches point to the need to advance on both fronts simultaneously. The NIEO is concerned with formulating a framework of institutions, processes, and rules that would correct what developing countries regard as the present bias of the system against them. This bias is thought to be evident in the structure of certain markets, where a few large and powerful buyers confront many weak, competing sellers; in tariff structures that discriminate against processing in developing countries; in discrimination in access to capital markets and to knowledge in the present patent law and patent conventions; in the thrust of research and development and the nature of modern technology; in the power of the transnational corporations; in shipping; in international monetary arrangements, etc. A correction in the direction of a more balanced distribution of power would enable developing countries to become more self-reliant and less dependent. But the NIEO by itself would be no guarantee that the governments of the developing countries would use their new power to meet the needs of their poor. The BHN approach, by focusing on the goods and services needed by deprived people, households, and communities, highlights the importance of the needs of individual human beings.

A basic needs program that does not build on the self-reliance and self-help of governments and countries is in danger of degenerating into a global charity program and can be counterproductive. A NIEO that is not committed to meeting basic needs is vulnerable to the standard criticism that it would transfer resources from the poor in rich countries to the rich in poor countries.

It is easy to envisage a situation in which the benefits of international BHN

assistance are more than wiped out by the damage done by protectionist trade and foreign investment, by discriminatory transfer pricing and other practices of multinationals, by the unemployment generated by inappropriate technology, or by restrictive monetary policies. The global commitment to BHN makes sense only in an international order in which the impact of all international policies other than aid—trade, foreign investment, technology transfer, movement of professionals, money—is not detrimental to a self-reliant strategy of meeting basic needs. Insofar as the NIEO makes more resources available to the developing countries, basic needs can be met sooner.

The NIEO is a call for a revision of the rules and institutions regulating the relations between sovereign nations, and meeting basic needs is one important objective which this framework should serve. Some would maintain that integration into any international economic order in which advanced capitalist economies dominate is inconsistent with meeting the basic needs of the poor. They advocate "delinking" in order to insulate a society from the detrimental impulses propagated by the international system. Policies derived from such a view of the world order do not, of course, depend on wringing concessions from rich countries, but can be pursued by unilateral action.

Those, on the other hand, who think that the international system has benefits to offer if the rules are reformulated and the power relations recast, will opt not for complete delinking but for restructuring. Restructuring has implications for domestic policies in both developed and developing countries and for international policies. For example, if the industrialized countries really want to help the developing countries to pursue a basic needs approach, they must assist their own workers in labor-intensive industries to shift to better, more remunerative types of employment and make room for better access of labor-intensive imports which generate employment and incomes for the poor in the low-income

countries. The receipts from these exports will be used to import capital-intensive products like fertilizer, steel and synthetic fibers from the industrialized countries, enabling their workers to raise their earnings. At the same time, the developing countries would have to restructure to assure that the benefits of export-stimulated growth do in fact reach the poor. These benefits are measured in terms of access to goods and services provided or supported by the general tax revenues and access to income-earning opportunities provided by economic activity.

#### The Country Distribution of NIEO 'Benefits'

This section indicates the potential patterns of distribution among developing countries of "benefits" that might flow from policy changes in several functional areas embodied in the NIEO. These areas include trade in manufactures and agricultural products, trade in commodities, debt relief, and development assistance. The issues of food and energy security are also briefly discussed. Many other issues covered in the comprehensive program of the NIEO are not addressed. The discussion draws on data in the Appendix tables.

The major conclusion to be drawn from the following analysis is that the initial direct gains derived from "positive" change in any individual functional area tend to be shared among a relatively few beneficiaries. The list of primary beneficiaries varies by issue area. As might be expected, generalized trade liberalization tends to benefit middle-income countries disproportionately. Improvements in commodities markets confer gains on a much broader range of countries. The distributional effects of debt relief and increases in development assistance would depend on allocational decisions among donors, but the low-income countries are the most likely beneficiaries. In sum, the variety of distributions arrived at in different issue areas, with specific countries or groups of countries

benefiting more in certain areas and less in others, shows why the Group of 77 as a whole has pressed for changes in all sectors, leading to what has been called the "lowest common denominator" approach.

The distribution of benefits arising from opportunities created in the international economy depends on the degree to which individual nations are able to take advantage of these opportunities. One of the major principles underlying the NIEO philosophy is that the system tends to be biased in favor of those countries most capable of using the system. In the view of the G-77, the "advanced" group consists of the established industrialized nations. But the same rule holds for the G-77 itself, since certain developing countries (generally the more advanced economically) are in a better position to compete for new markets, investments, and funds.

The economic effects of NIEO proposals, which are at least theoretically designed to open up opportunities to developing countries as a group, are largely a function of the nature and degree of change implemented. Many of the NIEO proposals have not been specified in any detail, although they do indicate the direction of policy change desired. The following distributional assessments begin with the assumption that international policies will be applied on a generalized rather than a selective basis. This assumption is questionable, given the growing use of selectivity in economic programs and policies. In the area of trade, for example, the concept of most-favored-nation treatment has eroded in favor of selective treatment of products or countries, as seen in the various systems of trade preference and the enforcement of non-tariff codes. Development assistance funds are targeted both toward specific countries and toward specific sectors within countries. Policies with respect to debt relief, technology transfer, and even commodities trade tend to be subject to distributional decisions. The selective nature of most policy changes complicates any a priori determination

of their effects.

Advocates of the NIEO tend to be ambivalent on this issue. On the one hand, they call for "special and differential treatment" for developing countries as a whole. However, differentiation among Third World nations for policy purposes is strongly resisted, particularly differentiation which implies some form of "graduation." The exception to this position is the identification of specific groups of countries (particularly the least developed, those "most seriously affected" by increases in the prices of oil and other necessities, the islands and the land-locked) which are considered to qualify for special measures of assistance. The line of reasoning used to make these positions consistent is that additional "concessions" should be extended to all developing countries, or at a minimum that existing "concessions" should not be withdrawn, with special emphasis being placed on assistance to the most disadvantaged groups of countries.

In spite of these complications, the distributional effects among countries of a number of the NIEO proposals can be assessed. For several of the functional areas covered by the NIEO there is historical experience upon which to draw, such as trade gains under most-favored-nation treatment and trade preferences, and historical aid flows and extensions of debt relief. Estimates of the potential effects of trade policies affecting agricultural and manufactured products are also available. In the areas of commodities trade and debt, inter-country distributional assessments can be made on the basis of existing data and assumptions concerning policy changes.

In addition to the assumed absence of selectivity in policy application, two other caveats about the following analyses are in order: 1) trade projections are made on the basis of trade patterns prevailing in the mid-1970s; these patterns have since changed, in some cases considerably. However, while these changes would reduce the precision of the estimates, they would not alter to any

significant degree the rank ordering of major beneficiaries. 2) The distributional estimates are in some cases based on assumed policy changes which differ from actual changes experienced or proposed.

One problem with the method of analysis used here is that it fails to capture the significance of potential gains from NIEO policies to the poorer nations. It is in the nature of the poorest countries' problem that their share of total gains will invariably be small, but the absolute size of their gains may be large in comparison to their present incomes or exports. The columns in the tables indicating per capita gains, while varying dramatically due to differences in populations, often show how important international transactions are to the lower-income developing countries.

#### Trade in Manufactures and Agricultural Products

One of the most fundamental elements of the NIEO is a demand for increased access for developing-country processed commodities and manufactured products in industrial-country markets. In practice this generalized demand means reducing tariff and non-tariff trade barriers (plus other discriminatory factors such as freight rates and shipping preferences). Table 1 shows the estimated increase of Third World exports each year from a 60 per cent reduction in tariff and agricultural nontariff restrictions against developing-country products. The recently concluded Tokyo Round of multilateral trade negotiations arrived at tariff cuts averaging about half this amount, in most cases to be phased in over an eight-year period. Tariffs on the current composition of goods produced in developing countries are to be reduced by about 25 per cent, or somewhat less than the overall average. Many products of interest to developing countries were expressly excluded from tariff reductions. In addition, the estimates do not take into account existing quantitative restrictions on certain Third World manufactures exports. As a result, the magnitudes of export increases directly

associated with reductions in trade barriers tend to be overstated; on the other hand, they do not take into consideration export increases resulting from other sources of trade creation.

Table 1 aggregates the projected trade gains, which are broken down by product category in subsequent tables. The distribution of benefits derived from trade liberalization, as measured by export increase in Table 1, is what one might expect: the principal beneficiaries are those countries which have already succeeded in expanding their export sectors and penetrating the markets of industrial countries. These are primarily a small number of advanced developing countries that have switched to export-led growth strategies and have achieved a relatively high level of per capita income. The distribution of income in the major beneficiaries does, however, vary significantly. In the Asian countries of Taiwan, Korea, and to a lesser extent Hong Kong, wealth and income is distributed relatively evenly, whereas the income distribution in Argentina, Mexico, and Brazil is heavily skewed toward a small minority.

The distribution of potential export gains is highly concentrated: the top five projected exporters account for over 60 per cent of estimated trade expansion, and the highest ten exporters account for nearly three fourths of the overall export rises of developing countries. This same level of concentration holds for all subcategories of trade liberalization except reduction of agricultural tariffs, which is discussed below.

The method of analysis employed to generate these estimates guarantees a high level of concentration, since it is based on existing market shares. Rises in demand created by liberalization are assumed to be filled by existing suppliers in proportion to their market shares. This in turn assumes a supply elasticity approaching infinity; that is, exporting countries can produce enough goods to



satisfy any increases in demand without incurring increased costs. This condition does tend to hold for large countries, given modest levels of exports stimulated by liberalization, particularly over the medium term. However, it may not hold for smaller countries facing rapid changes in factor prices (wage rates, input costs, etc.) and trading in highly competitive markets. This can be seen in the relatively rapid migration of the textile industry toward production centers offering moderately skilled labor forces at relatively low wage levels. It implies that the "spread effect" of trade expansion to non-traditional exporters may be much greater than indicated by the concentration shown on the table.

Evidence of the "spread effect" of export production (which might also be called shifts in comparative advantage, or even "trickle down") is provided by long-run changes in market shares. The Third World share of total U.S. imports of manufactures, for example, rose from about 13 per cent in 1970 to over 20 per cent in 1977. Within this aggregate gain, the developing-country rise in market share for certain categories of goods rose dramatically over the same period: from 46 per cent to 80 per cent for clothing imports, from 13 per cent to 53 per cent for footwear, and from 21 per cent to 42 per cent of electrical machinery. The basic trend was that the advanced developing countries displaced the market shares of existing suppliers, primarily Japan, in those produce categories. Currently there is clear evidence that the competitive position of the advanced developing countries is being eroded by less advanced countries, particularly in product lines requiring labor-intensive production.

As was noted above, the initial beneficiaries of general trade liberalization primarily would be countries which have already achieved high levels of exports and per capita income. It is worth noting that trade has played an integral part in raising levels of output and income in those very countries, and in at least a number of them trade has assisted materially in raising living standards and



financing efforts to meet basic needs. This is particularly true in the smaller Asian traders, which have concentrated on exporting labor-intensive consumer goods, thus increasing levels of productive employment.

A number of relatively poorer developing countries do appear on the list of major trade beneficiaries, such as India, the Philippines, Pakistan, Thailand, and Indonesia, mostly because of their size. But the per capita export gains to these countries would in most cases be relatively small. Absent from the roster of the highest thirty beneficiaries are the vast majority of least developed countries in Africa and South Asia. This suggests that special efforts would have to be made to bring these countries, most of which depend very heavily on exports of commodities rather than manufactures, more effectively into the international trading system.

Table 2 shows the ranking of countries whose exports would be stimulated by a reduction in tariffs on non-textile manufactures. Once again, the most significant increases are accounted for by the more advanced developing countries, but several low-income countries such as India and Pakistan would potentially record modest rises in exports.

This same pattern holds for increases in textile exports as indicated in Table 3. It should be noted that this analysis assumes that quotas under the Multifiber Agreement would be raised to accommodate higher demand resulting from tariff cuts. The list of major beneficiaries from liberalization in textiles trade is nearly identical to that for non-textile manufactures (Table 2), except that the latter includes several countries (Chile, Zambia, Kuwait) which export certain levels of processed mineral products.

Potential export increases accruing from the reduction of tariffs on agricultural goods (Table 4) are much more widely dispersed among developing countries than those for manufactures. While several high-income countries once again head the list, the low- and middle-income developing countries achieve relatively

larger portions of potential export gains. This pattern differs from that for reductions in agricultural non-tariff barriers, shown in Table 5. The major beneficiaries in this case would be those land-abundant developing countries that export meat, sugar, grains, and other cash crops affected by quotas and variable levies. Argentina alone would account for over 45 per cent of the increases, and Latin America would obtain about 58 per cent of the total increases.

Table 6 estimates rises of exports stimulated by tariff-free entry under the U.S. Generalized System of Preferences. These estimates are based on all 1975 trade of GSP-qualifying products, without taking into consideration the requirements that at least 35 per cent of the value added originate in a developing country. Since that time, the specific list of qualifying products has been modified. Despite these qualifications, the general conclusion that the advanced developing countries that are already competitive are most likely to benefit from GSP treatment remains valid. Already integrated deeply into the trading network, these countries have been in the best position to diversify exports to take advantage of GSP treatment. The "competitive need" clauses of the U.S. preference scheme do, however, limit the amount of goods from any supplier that can enter the United States duty-free.

In 1979, the United States imported about \$6.3 billion worth of goods under the GSP, a rise from \$5.2 billion in 1978. Currently, about 2,800 product classifications (out of a total of approximately 7,000 in the tariff schedules) are covered by the program. The competitive need provisions preclude duty-free treatment if a country's exports of a given item to the U.S. exceeded \$41.9 million (in 1979) or achieved a market share of more than 50 per cent of total U.S. imports of a product during the preceding calendar year (the latter provision can be waived in cases where U.S. imports in 1979 did not exceed \$1 million). Competitive need exclusions total approximately \$4.6 billion (based on 1979

trade) and include 182 products from participating countries. Nearly all of these exclusions were on the exports of the more advanced developing countries.

The discussion above focuses rather narrowly on the effects of trade liberalization on stimulating Third World exports. It does not treat the question of higher costs for resources required to produce those exports, which would have the effect of dampening the domestic economic benefits of exporting countries. Nor does it state the important conclusion that, according to the study on which most of these figures are based, the major beneficiaries of generalized trade liberalization would be the industrial countries, both through export expansion and through the macroeconomic gains associated with freer trade (efficiency, greater economies of scale, higher levels of competition, reduced inflationary pressures, and so forth).

#### Trade in Commodities

Tables 7 through 16 show the 1975-77 trade shares for the ten core commodities in the proposed Integrated Programme for Commodities (IPC). These distributions indicate which countries might experience export gains (volume or value) if the NIED objectives of stabilizing commodity prices and/or raising the real prices of commodities are achieved.

Commodity price stabilization (rather than price-raising) tends to benefit consumers more than producers, due to the anti-inflationary impact of dampened price fluctuations. The industrial countries are the major consumers of the IPC commodities; however, some developed countries are net exporters, and many developing countries are net importers. Commodity price rises (in real terms) would clearly benefit net exporters in the short run. The following discussion assumes that export gains (via stabilization or terms-of-trade improvement) would accrue to producers in proportion to existing market shares, disregarding the question of supply capacity.

With the exceptions of cotton and sugar, the distributions of commodity trade shares are relatively (and in some cases highly) concentrated. Unlike trade in manufactures, however, the lists of countries involved in commodities trade vary significantly and include a large number of low-income countries. While certain higher-income developing countries head the list of exports of some commodities (Brazil for coffee, sisal, and sugar; Chile for copper; Malaysia for rubber), many low-income countries are major exporters.

Commodity exports are crucial to low-income developing countries, accounting for an average of about 43 per cent of their total exports in the mid-1970s. For middle-income countries (with per capita incomes of \$300-\$699 in 1974), an average of 40 per cent of total exports were commodities. For upper-middle-income countries (with per capita incomes of \$700-\$1,999 in 1974), an average of only 19 per cent of total exports were accounted for by commodities.

An examination of the levels and shares of trade in the individual ten core commodities of the IPC shows that a wide variety of developing countries would benefit from price stability or improvements in terms of trade. The principal exporters of cocoa are the relatively low-income African nations of Ghana, Nigeria, Ivory Coast, and Cameroon. Brazil is also among the top five exporters, which together account for over 80 per cent of Third World exports.

Trade in coffee is somewhat more broadly distributed, although Brazil and Colombia share about one third of the export market. Apart from these two countries, trade shares of the international coffee market are dispersed widely among developing countries of Africa, Asia, and Latin America, which suggests that potential export gains would be distributed across a relatively broad spectrum of developing countries.

Third World exports of copper are highly concentrated in a handful of countries. Three countries alone—Chile, Zambia, and Zaire—export about three

fourths of all copper sold by developing countries, although these three countries together account for only 42 per cent of total world exports, since a number of industrialized countries are major producers.

Developing countries sell less than half of total world exports of cotton. Among Third World countries, the relatively low-income nations of Egypt and Sudan are the primary producers, selling about one third of total developing-country exports. Beyond these two countries, sales are shared by a broad range of low-income and middle-income developing countries.

Increases in sales volume or price for jute would also have clearly positive distributional effects among countries. All major producing countries fall into the relatively low-income category, particularly the leading exporter, Bangladesh, which sells some 64 per cent of world exports of jute.

Exports of rubber are highly concentrated, with Malaysia accounting for over half of world exports. The top five exporters, which include the lower-income countries of Indonesia, Thailand, Sri Lanka, and Liberia, together produce over 92 per cent of total rubber exports.

Brazil is the major exporter of sisal, selling about one third of the world total. The other major sources of sisal include the lower-income nations of Tanzania, Kenya, Angola, and Madagascar. These nations and Brazil export almost 88 per cent of the world total, which averaged only \$113.6 million per year over the 1975-77 period.

The figures for exports of sugar do not include Cuba, the principal producer among the Third World exporters; Cuba is aggregated into the "other country" category. With this exception, shares of sugar exports are fairly widely distributed among developing countries. Brazil once again leads the list, and other middle-income developing countries (the Dominican Republic, Mauritius, Taiwan, and Argentina) are significant exporters, but a number of lower-income countries also appear high on the list.

As with jute, low-income developing countries dominate export markets for tea. India and Sri Lanka alone accounted for over half of total world exports, and the top five exporters, which include Kenya, Indonesia, and Malawi, produce over two thirds of total exports.

The distribution of tin exports is similar to that for rubber, with Malaysia again leading the list, with some 40 per cent of total export sales. The other producers in the top five include Bolivia, Thailand, Indonesia, and Nigeria, which are generally considered to fall into the middle-income range of developing countries.

Commodity exports affect a much broader range of Third World nations than do exports of manufactures, which tend to be concentrated in a relatively small number of advanced developing countries. In addition, worldwide demand for and prices of commodities tend to fluctuate more widely than those for manufactures, thereby affecting more strongly the domestic economic performance of those low- and middle-income developing countries which depend more heavily on earnings from the sale of commodities. These factors explain why the commodities issue has remained central to the NIEO.

#### Debt Relief

The initial demand for debt relief was viewed as applying across the board to all Third World nations, since the G-77 proposed relief on official debt for "interested" developing countries. The 1974 NIEO declaration itself called for renegotiation of debt on a case-by-case basis, considering the options of cancellation, moratoriums, rescheduling, or interest subsidization. The issue of whether debt relief would be generalized or targeted was resolved at the UNCTAD Trade and Development Board meeting held in March 1978. At that meeting, the industrialized countries indicated that they were willing to consider granting relief on the bilateral concessional debt owed by the poorest

developing countries facing serious development problems or debt difficulties. It was agreed that each creditor country would determine which countries would receive help and how much.

Even though debt relief has come to be fairly narrowly defined as applying to official bilateral assistance on a case-by-case basis, which precludes generalizations concerning beneficiaries, it is useful to examine the overall situation faced by the major debtors among developing countries. Table 17 shows a rank ordering of total outstanding external public debt as of the end of 1977. The high-income countries of Brazil and Mexico record the highest levels of overall debt, each accounting for almost 10 per cent of total Third World debt. These are followed by the large, relatively low-income countries of India and Indonesia. The remainder of the list consists of a variety of developing countries, ranging from low-income Bangladesh to high-income Iran. Overall debt levels are much less concentrated than shares of trade in manufactures or commodities.

More interesting than overall levels is the distribution of debt according to the various sources of financing. Table 18 confirms the notion that private funds flow primarily to the more advanced developing countries. With very few exceptions, claims held by financial institutions (primarily private banks) are concentrated in countries at the higher end of the range of per capita income. These countries historically have been considered best able to service their debts through export earnings. The top ten borrowers account for almost two thirds of total debt in this category; they are also among those which have opposed generalized debt relief, believing that such relief would diminish their creditworthiness.

Funds loaned by the multilateral banks are somewhat more widely dispersed, as shown in Table 19. The principal recipients of multilateral bank loans (both "soft" and "hard") fall into one of two groups: large, relatively poor nations such as India, Egypt, Indonesia, and Pakistan; or large, more economically advanced nations such as Brazil, Mexico, Korea, and Colombia.

Table 20 shows the distribution of debt accumulated through flows of official bilateral assistance. This is the form of debt most likely to be considered for some form of relief. In this case, the major debtors are the relatively poor countries of India, Indonesia, Egypt, and Pakistan, followed by a number of more advanced developing countries.

The distributions show only the incidence of debt in Third World nations and the order in which they would benefit if debt relief were extended proportionately on a generalized basis. In fact, all measures of implemented or proposed debt relief have been or would be applied selectively. Of the fourteen countries earmarked for debt relief by the United States in the most recent Foreign Assistance Act (not yet passed), for example, only four—Bangladesh, Somalia, Sudan, and Tanzania—are among the thirty major debtors from bilateral aid loans.

The poorest nations would be the prime beneficiaries of a number of financial reforms contained in the NIEO. For example, if the SDR link ever comes to pass, it could be directed toward assisting the poorest countries. These countries would also benefit from new schemes to provide international guarantees and/or interest subsidies to improve the recycling of oil surplus funds. IMF conditionality disproportionately affects those countries not considered creditworthy by the commercial banking system. Reforms in the direction of longer periods for adjustment and greater automaticity in circumstances of externally created shocks—as well as increased attention to the domestic income distributional implications of



stabilization programs—will be of particular benefit to the poorest countries. In addition, increased SDR use in contracts of every kind, commercial and financial, is particularly helpful to those countries least equipped to manage foreign exchange risk, that is, the poorest.

#### Development Assistance

Aid is one of the few items on the list of NIEO proposals that is not affected significantly by market forces and differences in comparative advantage. In fact, many donor countries have adopted a policy guideline allocating increasing proportions of official development assistance (ODA) to those countries least able to take advantage of other more market-oriented opportunities in the international economy. However, there is some dispute as to the extent to which this change in policy direction has been implemented. In any case, flows of development assistance are clearly determined by the allocational decisions of donor countries and multilateral lending institutions.

Table 21 shows the distribution of ODA to thirty developing countries and territories in 1978. This distribution is strikingly different in several respects from those mentioned above. First is the almost total absence on this list of the more advanced Third World nations. A few relatively high-income areas appear on the list (Israel, Reunion, Syria, Martinique, etc.) because they are of major interest to individual donors or groups of donors. Aside from these, the principal recipients are the large, low-income nations of the Third World.

A second distinction is that aid flows are much more diffuse than shares of trade and debt. The top ten recipients account for less than 40 per cent of all net receipts of ODA in 1978, and nearly 40 per cent of aid flows were received by countries not among the top thirty recipients.

The diffusion of aid flows is even more marked with regard to cumulative grants, the distribution of which is shown on Table 22. The top five recipients

account for only 20 per cent of grants extended between 1960 and 1977, the top ten for only thirty per cent, and the top 30 for less than half of total cumulative grants. This latter list includes a number of advanced developing countries (Korea, Brazil, Colombia) that have received considerable amounts of aid in the past, but receive very little now in the form of outright grants.

With a few exceptions, the allocation of development assistance now tends to favor the low-income countries. In addition, aid projects at least in theory attempt to benefit the poor within developing countries more directly than other market-oriented activities. In any case, the distribution of development assistance flows is more favorably oriented toward the less developed Third World nations than are the distributions of potential benefits associated with other NIEO policy changes.

#### Food and Energy

Two extremely important areas which have received insufficient attention are food and energy security. Since there are no specific proposals in these areas, the distributional benefits cannot be measured. It is possible, however, to examine levels of import requirements.

While productive capacity and demand for any given foodstuff vary enormously among nations, certain requirements for basic grains must be fulfilled if widespread malnutrition is to be prevented. The NIEO contains a number of general proposals aimed at raising levels of food output and storage capacity in Third World countries and improving international mechanisms (such as emergency grain reserves) to deal with periods of worldwide food shortages. Tables 23 and 24 indicate major importers of rice and wheat during the period 1976-1978. These countries would tend to be most seriously affected by global shortfalls, particularly the major low-income importers that would be less able to afford higher-priced grains during tight supply situations.

Generally, the principal importers of rice and wheat are countries with large populations and low incomes. Exceptions are Iran, Hong Kong, and Saudi Arabia, which possess limited production capabilities. It should also be noted that a number of countries in sub-Saharan Africa and elsewhere that in fact are heavily dependent on foreign sources of food appear low on these lists or do not appear at all, because they have small populations. These and the major grain importers shown on the table would benefit greatly from higher levels of domestic production and from greater stability in international food prices.

Although the issue of energy was not mentioned explicitly in the initial NIEO proposals, to a great degree progress on either the NIEO or basic needs satisfaction will depend on whether an accommodation can be found between the divergent interests of oil producers and oil consumers, since energy is at the core of both strategies. Energy security is a sensitive issue, since oil is the most important internationally traded product and represents the major bargaining chip of the Third World in North-South discussions. Even within the Group of 77 strains have emerged over this issue, due to the fundamental difference of interests of producers (concerned with improving and protecting the value of their export earnings), and consumers (concerned with the need for predictability in energy supply and price).

The bulk of oil sold in international markets flows from members of OPEC to the advanced industrial nations. As indicated in Table 25, however, a number of Third World countries import significant amounts of oil. The major importers among them possess either advanced economies at the higher per capita income levels, or large populations, or both. Some countries have been relatively successful in coping thus far with rising energy import costs, but many have had to contract their economies to absorb these costs or build up increasingly onerous amounts of international debt. A number of middle-level importers are experiencing serious financial difficulties.

In other areas of international transactions, the presentation of country-by-country distributions of the effects of various NIEO proposals are complicated by several factors. For example, even though statistics on foreign direct investment flows are available, it is impossible to predict whether the implementation of a code of conduct for multinational corporations would redirect flows, or would increase or decrease their size in absolute terms. Other functional areas such as technology transfer, changes in voting structures in international institutions, and so forth, do not lend themselves readily to quantification.

The Impact of NIEO Proposals on Basic Needs Satisfaction in the South

Remarkably little research has been carried out on the impact on poverty groups within countries of international transactions and policies in general, much less of the various NIEO proposals. Analytically, the problem entails the need to trace the effects of economic activity at its most aggregate level (international transactions) down through the various units of analysis (nations, sectors, regions, communities, and households) and finally to the level of the individual. Any attempt to cover in detail the broad range of NIEO proposals quickly runs into nearly endless variations and permutations of possible impacts. At a minimum, each affected country would have to be examined separately, given the wide differences in market structure and levels and forms of government intervention among developing countries. For each country the domestic benefits and costs to be derived from NIEO proposals would have to be disaggregated in at least two ways, both of which are relevant to their BHN impact: 1) direct and indirect changes, and 2) microeconomic and macroeconomic effects.

Direct changes are identified as changes in income, employment, aid, etc., directly resulting from the NIEO proposals; the indirect element includes changes generated as by-products of the direct benefits, such as the development of sectors supplying export industries, income and employment multipliers, and so forth, and changes derived from certain NIEO proposals (technology transfer, codes of conduct for transnationals, etc.), for which direct gains are less tangibly measurable.

Overlying the direct and indirect changes are microeconomic (sectoral or personal) effects and macroeconomic effects. Implementation of the various NIEO proposals involves a distribution of economic effects within developing

countries; some sectors or individuals will be affected more than others, in both a positive and a negative sense (sharing costs and benefits). While the sectoral changes can be summed up into country-wide aggregates, additional macroeconomic factors such as price and exchange rate stability, higher tax revenues, and productivity gains, must also be examined.

These direct and indirect breakdowns are important for both analytical and political reasons. While seeming similar on the surface, they would address different aspects of the NIEO/BHN debate. For example, some analysts stress that direct benefits of certain proposals are negligible, and ignore potentially large indirect gains because of difficulties in measurement. Alternatively, in some cases where direct benefits may be significant, indirect economic and social costs in the form of resource depletion, pollution, undesired migration, and so forth, may more than offset the gains.

The micro/macro analysis examines the issue from a slightly different perspective. The micro economic analysis looks at which sectors and individuals within them are likely to benefit directly and indirectly from specific NIEO proposals, and which might lose. The macroeconomic focuses on whether there are effects beyond those ascribable to specific sectors which can have a measurable impact on basic needs in a given country.

Once the domestic economic effects of the various NIEO proposals had been determined in as much detail as possible, their linkages with basic needs satisfaction would have to be traced. The key factors relating them would be production and income, which respectively distinguish the supply side and the demand side of BHN strategies. . . .

The supply side focuses on the availability of goods and services, either from domestic production or through importation. Such analysis might show, for example, that a commodity agreement results in the conversion of land use from

food crops to cash crops—thereby reducing domestic food availability but presumably raising income for at least a few. Achieving domestic self-sufficiency in all basic goods is not necessarily an optimal strategy for meeting basic needs, but if the incremental income generated by the conversion is diverted from the poor, then the BHN impact is likely to be negative. On the positive side, economies of scale achieved through manufactures trade could result in a cheaper and more plentiful supply of needed goods.

The demand side of the equation considers the ability of nations or individuals to purchase available goods and services. On the macroeconomic level, purchasing power is determined by income from production for domestic consumption and by foreign exchange earnings. Foreign exchange is generated from trade, private capital inflows, aid and other official financial inflows. On the sectoral or personal level, purchasing power is a function of employment income (cash or in kind), unearned income (profits, interest, etc.), transfers of goods or cash, and services provided below cost by the public sector.

Another dimension of the examination of individual NIEO proposals will be the distinction between those oriented primarily toward the private sector and those directed at the public sector—although this distinction is often blurred by the varying activities of state enterprises.

In the case of proposals affecting private market activities (commodity agreements, trade preferences, increased access to markets, etc.) the structure of current production would first have to be identified: input requirements of labor, capital, land, technology, energy, and infrastructure; the distribution of income generated; and externalities such as environmental and social implications. Next, the impact of the NIEO proposal on the industry in question would be examined: changes in supply of and demand for output, absorption of

factors of production, and income generation and distribution. Finally, the potential impact of these changes on BHN would be analyzed: availability of basic goods, changes in employment and income among the poor, changes in accessibility of needed services, and sustainability of positive changes over time and/or the incidence of negative changes.

Public sector proposals (increased aid, debt relief, SDR links, etc.) must be handled somewhat differently, since allocations of benefits (and costs) are determined by government decisions rather than by market forces. First, the impact of current conditions on BHN would be examined through analysis of the magnitude and distribution of debt burden, aid levels and allocations, budgetary priorities, and so forth. Then the potential effects of NIEO proposals would be explored by looking at foreign exchange savings, budgetary (tax) savings, and changes in monetary and fiscal policies. Finally, the BHN impact of these public sector changes would be examined. To a large extent this final analysis would be based on the revealed preference of developing-country governments—that is, past decisions on allocations—since many of the financial resources involved are fungible. However, a number of actions in this area have been directed specifically toward BHN, particularly in the aid area. The question of whether aid would direct more resources toward the poor or would simply release other resources (to achieve the same aggregate allocation) would have to be addressed.

Even if the application of detailed item-by-item, country-by-country analysis were possible, the impact of any NIEO-oriented change on the satisfaction of basic needs in any given country ultimately depends on that country's commitment to improving the conditions of its poor. For example, even if the rich were to benefit initially, taxation would make redistribution possible. But



equally, if the poor were to benefit initially, redistribution upward may take place later. If the emphasis is on concessions going to the poorest countries with governments determined to tackle poverty, the impact on basic needs would be strong. If, on the other hand, the emphasis is directed toward market access and better terms for technology transfer, the impact would be on countries and groups within countries in the middle-income range. Many measures would increase government revenues, whether directly (official development assistance), or indirectly (taxation of extra profits and incomes). If these governments adopt the appropriate policies, the impact of the NIEO measures will be favorable to basic needs. The ideal combination would be for a national government to commit itself to a policy of meeting the basic needs of its people, through, for example, a campaign to eliminate hunger and malnutrition—and for the international community to underwrite such a program in the form of additional commitments of financial and technical assistance and other economic concessions.

An examination of the performance and commitment of Third World nations to basic needs satisfaction would have to take note of two other points. First, like their counterparts in industrialized countries, governments of developing countries have other objectives in addition to meeting basic needs. These include military objectives, independence, Northern-style industrialization, meeting non-basic needs of the upper classes, in some cases the evolution toward more democratic government, and so forth. Second, in spite of the hostility to BHN in international discussions, basic needs and similar objectives figure prominently in at least the rhetoric of national planning and policy making.<sup>44/</sup>

For instance, the 1979-83 development plan for Kenya states that the "alleviation of poverty is not only an objective in our development efforts, it is also a major instrument for ensuring that our development is rapid, stable and sustainable. . . . Improvements of the well-being of the people remain our dominant aim."<sup>45/</sup> Similarly, the Five-Year Philippine Development Plan (1978-82) indicates that "the conquest of mass poverty becomes the immediate, fundamental goal of Philippine development." Development over the next decade "will be a massive effort to provide for basic needs of the majority of the population. . . ."<sup>46/</sup>

India's new draft plan for 1978-83 suggests that "what matters is not the precise rate of increase in the national product that is achieved in five or ten years, but whether we can ensure within a specified timeframe a measurable increase in the welfare of the millions of poor."<sup>47/</sup> The three principal objectives of this plan are listed as the removal of unemployment and underemployment, a rise in the standard of living of the poor, and the provision by the government of certain "basic needs," namely drinking water, literacy, elementary education, health care, rural roads, rural housing, and minimum services in urban slums. The plan puts forward a revised "Minimum Needs Program" which substantially increases allocations for water supply, basic education, rural roads, and other identified basic needs. At the same time, however, at a meeting of the U.N. Committee of the Whole, the Indian delegate indicated that his government was "strongly against any attempt to direct the attention of the international community to alternative approaches to development cooperation, such as the basic needs approach."<sup>48/</sup>

The new Sixth Development Plan of Nepal (1980-85) lists as its first two objectives the "gradual elimination of absolute poverty through employment opportunities" and the "fulfillment of minimum basic needs." Meeting basic

needs is seen as a way to "enhance the efficiency and productivity" of low-income groups in backward areas. These minimum needs are listed as being "potable water, minimum health care, primary and skill-oriented education, family planning and maternity child-health care services, irrigation facilities," as well as basic transport and agricultural extension services.<sup>49/</sup> How these principles will be carried into the final plan document and its resource allocations, however, is not yet clear.

Korea is known as a country which already has made substantial progress on basic needs. Yet Korea's fourth development Plan (1977-82) significantly increased allocations for social development while maintaining a heavy emphasis on industrial development and export-led growth. In Indonesia, the third development plan (1979-84) states its "essential goals" are "to raise the living standards and levels of knowledge of the Indonesian people, to strive for a more equitable and just distribution of welfare. . . ." An objective is equitable distribution of "access to means of fulfilling basic human needs, especially food, clothing and shelter," as well as access to health and education facilities, jobs, incomes and in regional development.<sup>50/</sup>

Not all countries have made an explicit shift to BHN. In Tunisia, the new five-year plan (Fifth Plan of Economic and Social Development) increases the emphasis on employment and income distribution, but does not give priority to a basic needs strategy. The current (1976-80) plan for Malaysia emphasizes the alleviation of poverty through increased productivity, reduced population pressure, and increased employment, as well as through the provision of essential services such as water supply, education, electricity. But the Malaysian plan was drafted largely before "basic needs" had become a banner. Many countries have already made a heavy commitment to social development, and therefore have not felt the need to shift priorities. Such countries include Sri Lanka,

Burma, Tanzania, Madagascar, and Algeria, among others. Many are still in the process of formulating new development plans. There are indications that many of the new plans, such as those being developed for Mexico and Niger are likely to place more emphasis on basic needs and income distribution and employment issues. In Egypt, past development efforts have given high priority to social development, but this has been centered principally on urban areas. The new development plan for Egypt shifts the allocation of resources to the rural areas and increases the amount of rural participation in planning decisions. In some countries (Sudan, Morocco, Peru), plans to expand social sector expenditures and poverty-oriented programs have been delayed because of resource constraints. In still others (Ivory Coast, Colombia), no shift in development priorities appears probable. On the whole, however, a large number of countries have given, or are about to give, their development strategies a greater poverty and basic needs orientation.

Rhetoric embodied in development plans does not necessarily mean a serious commitment. In many cases, however, the plans reviewed here show increased allocations for the social sectors in support of a basic needs strategy. This is true specifically of Korea, Indonesia, Kenya, Malaysia, and the Philippines. In the Philippines, social sector expenditures will increase from 23.5 per cent of total expenditures in 1977 to 28.1 per cent in 1982, while in Kenya the development budget plan increases their share from 21.7 per cent (fiscal years 1974-78) to 27.4 per cent (fiscal years 1979-83). In India, the allocations for the social sectors are actually decreased as a share of the total development expenditures, while the commitment to basic needs is increased. This is not to say that other countries are not equally committed to basic needs; total resource allocation does not give a wholly accurate measure of such commitments, since much can be accomplished by a reallocation within the sectors.

For those countries already allocating significant resources to the social sectors, reallocation can be used to meet basic needs without reducing investment in non-BHN activities or decreasing non-BHN consumption. A change in plan allocations does not guarantee that resources will eventually find their way into these sectors—historically, the social sectors have generally been considered "soft" and prime candidates for reductions in allocations in times of financial austerity—but there is growing recognition that there are political risks involved in continuing to ignore the basic needs of the majority of a country's population while continuing to provide services for the urban elites.

It is therefore evident that the developing countries' opposition to basic needs, at least in their declarations in international forums, is not so stark as it is often made out to be. Planning and treasury officials speak with a different voice and from a different tradition and training from foreign office officials, and the objections raised publicly may not be as widely shared as is often assumed.

The Impact of NIEO Proposals on the North

Mutual Interests, Common Interests, and Interdependence

In discussing the effects of NIEO proposals on the North, it is useful to distinguish between the various forms of interests involved as well as between degrees of interdependence. First, mutual interests should be distinguished from common interests. Mutuality exists where one party to a transaction can offer benefits (or inflict costs) in exchange for different benefits (or costs) extended by the other party. Trade is an example. Common interests exist where partners share a concern—such as avoiding pollution of the global environment or depletion of marine resources—which can or should be pursued cooperatively.

Second, mutual and common interests differ from interdependence. Interdependence refers to current transactions, whereas mutual interests may also refer to potential transactions and future change. Two countries may be completely self-sufficient and therefore not interdependent, but opening up trade and factor flows between them could be in their mutual interest.

Third, it is useful to subdivide levels of interest and interdependence into areas where mutual or common benefits can be achieved, areas where harm can be avoided, and areas of unilateral sacrifice. In the language of game theory, the distinction is between creating positive-sum games, avoiding negative-sum games, and arriving at zero-sum games. Establishing a rationale for the former two cases is usually straightforward, even though it might be complicated by differences in timing between costs incurred and benefits achieved. Justifying zero-sum games, on the other hand, tends to be much more complicated.

The need for negotiations to provide positive-sum outcomes to expand mutually beneficial economic relationships is often stated. Less frequently mentioned is the equally important need to prevent negative sum outcomes. Mutually disadvantageous actions and trends can occur in all categories of transactions: trade wars (in terms of either restrictions or subsidies), debt repudiation (or other forms of default), supply disruptions, expropriation, and violations of security (either initiated or condoned by governments in power) all represent developments that can be injurious to two or more economic partners. A great deal of progress has been made in reducing the probability of such situations occurring within OECD countries, but all of these forms of mutual harm have taken place between developed and developing countries in the recent past, reflecting the absence of preventive mechanisms, rules, and institutions.

Finally, it is necessary to distinguish among various functional areas of interest, some of which overlap and all of which are interrelated. Over-riding all other areas of concern is the need to maintain world peace, which ultimately depends on the creation of a just order domestically and internationally. Of the 120 wars fought between 1946 and 1976, 114 were carried out in the Third World. The bulk of worldwide instability, whether related to East-West conflict or not, resides in developing countries. While it has been demonstrated that economic growth per se is no panacea for instability and violence, it has also been shown that concerted efforts toward economic development and equitable distribution of the fruits of development have helped to reduce domestic tensions and enhance a nation's capacity to preserve its own sovereignty. When a growing proportion of a nation's population has a stake in domestic growth and tranquility, there is much greater chance that stability can be achieved. Similarly, when individual nations have a clear and growing stake in the smooth

functioning of the international economy, they are less likely to undertake disruptive actions.

Another set of concerns relates to the security of any Northern country, its citizens abroad, and its allies. This subset of the security interests noted above focuses on the need to secure access to vital supplies, maintain open lines of communication, and provide adequate protection for citizens.

A third dimension of Northern interests is concerned with the economic effects, both positive and negative, resulting from international transactions in goods, services, technology and capital. As with matters of security, economic interests can be viewed from both the general level (maintaining an open trading system, providing financial stability, and so forth) and the specific functional level (employment creation, balanced trade, reduced levels of inflation). It has been disagreement over the economic implications of the various NIEO proposals that, more than any other factor, has led either to flat opposition or delays in consideration and implementation. Most of the analysis below is devoted to this aspect of the proposals.

A final set of interests, dealing with social, political and cultural developments, can be grouped under the heading of humanitarianism. These interests revolve around the question of what kind of world is desirable and possible. At the core of the issue is whether we seek a world in which life is, to paraphrase Hobbes, nasty, brutish and long, or one in which all people have access to what is needed for material subsistence and spiritual and intellectual fulfillment. While it is probably impossible—and, indeed, undesirable—for any individual or nation to impose a single philosophy or system on all, it is entirely legitimate to pursue those principles which are considered right and just. Few could argue against the ultimate objectives of basic needs satisfaction and the attainment of an equitable world economic system, but it is easy to question how these objectives are best achieved.



The various levels of interest noted above often interact in any given area of North-South relations. Indeed, it can be contended that all levels of interest affect every negotiation, decision, and action in this area, although the degree of impact varies in each case. In some instances, economic objectives are sacrificed (or at least compromised) in the interest of improved political relations; and alternatively political ties are sometimes strained in pursuit of concrete economic gains. The aim of any rational foreign policy should be to seek areas where different levels of interest are satisfied simultaneously and strike compromises in areas where interests are in basic conflict.

#### The Economic Effects of the NIEO

A vast amount of literature has been devoted to the NIEO. The bulk of this work, however, has focused on the political rather than the economic dimensions of the issues, and on the impact of NIEO reforms on the developing rather than the developed countries. As a result, the NIEO has come to be viewed in the United States and elsewhere as a patent transfer of resources and power from North to South—a zero-sum game. Attention has concentrated on those items which entail straightforward budgetary costs, rather than on those which could yield mutual benefits. The economic analysis that has been applied to these issues has tended to be used to refute the efficacy of the initial NIEO proposals, many of which were admittedly excessively generalized and ambitious. Therefore, little effort was made to assess the significant modifications that have since taken place in many of the proposals, or to develop alternative practices and structures which might lead to the satisfaction of common economic objectives.

The perceptions of academics and policymakers on both sides have been solidified around defensive positions. To take a few examples, commodity agreements are viewed either as attempts to extend cartelization to non-oil raw materials or as ineffectual and costly programs to prop up prices, rather than as joint producer-consumer efforts to stabilize prices. Debt relief is considered counterproductive on the ground that it would be extended on a generalized basis --to all developing countries and for all forms of public and private debt--and hence would inhibit lending in the future. A code of conduct for international investment is deemed a frontal assault on multinational corporations, leading to reduced investment flows, whereas in fact it is becoming recognized that a commonly accepted set of rules of behavior could result in increased levels of confidence among investors and greater gains to all concerned. These defensive attitudes have made it difficult to sort out those proposals (or portions of them) that appear to make sense from those that do not.

The performance of most industrial countries in meeting their economic objectives of growth, price stability, full employment, and balanced international payments, has been relatively poor in recent years. As in developing countries, the principal causal factors underlying this performance have been domestic, but international transactions and trends have an increasing impact: rising prices of oil and other essential imports, the international transmission of inflation and recession through trade flows, imbalances of financial assets and liabilities and other factors now have direct and growing effects on the domestic performance of Northern countries.

A rising proportion of internal sector-external sector interdependence now cuts across North-South lines, approaching in degree some of the strong intra-OECD linkages that developed in the 1960s and early 1970s. This raises the question of how North-South transactions and the various NIEO proposals affect economic performance in the United States and other industrial countries.

### North-South Linkages

It is almost a cliché to note that the best single thing the North could do to raise the prospects of the South would be to restore higher levels of growth within the OECD itself, given the importance of Northern markets to Southern exporters of both commodities and manufactures. The reverse has only recently begun to be explored. The developing countries offer disparate but as a whole rapidly growing markets for Northern goods and services. For example, the United States sold \$105 billion in goods and services to the developing countries in 1979—accounting for 37 per cent of total U.S. exports and almost 4.5 per cent of U.S. gross national product—which indicates the importance of the Third World as a market for U.S. output. Expansion or contraction of that market will have a material impact on U.S. producers. Positive growth correlations have been acknowledged in a number of studies.

Holsen and Waelbroeck calculated that the developing countries, by borrowing to support import demand in 1975 and 1976, contributed about 0.5 per cent in those years to the aggregate demand sustaining the output of the industrialized countries.<sup>51/</sup> A study undertaken by the University of Pennsylvania for UNCTAD estimated that a 3 per cent increase in the growth rate of non-oil producing developing countries could raise the OECD growth rate by 1 per cent.<sup>52/</sup> A similar study by Leontief for the United Nations calculated a somewhat lower, five-to-one, growth transmission ratio.<sup>53/</sup>

The validity of the UNCTAD simulations has been criticized appropriately on the grounds that Third World growth is assumed to be stimulated by a "costless" transfer of resources from the North to the non-oil South, which in turn assumes the availability of idle funds. An analysis undertaken by the U.S. Department of State disaggregated donor countries and added a financial element to similar projections.<sup>54/</sup> When these simulations incorporated

transfers that were financed through either diversion of donor government expenditures or additional donor country taxation, the net impact on both developed and developing countries is substantially smaller than that of "costless" transfers, due to the initial reduction of purchasing power in donor countries. When transfers are financed through expenditure diversion, aggregate donor GNP falls slightly (0.3 per cent per year over a three-year period), whereas the tax-financed transfer scenario calculates an annual 0.5 per cent rise in donor GNP. This difference is caused by the fact that government expenditure multipliers tend to exceed tax multipliers; in the latter case, the rises in international trade generated by transfers more than offset the dampening effects of higher taxes.

These studies add important clarifications to a largely neglected area of economic research—that of international linkages and the transmission of economic conditions. However, the emphasis placed on transfers tends to reinforce the misconception that the North-South connection is largely one of aid. In 1979, for example, total official development assistance from donor-country members of the OECD Development Assistance Committee amounted to \$22 billion. This figure is far below levels of non-concessional flows from DAC members to developing countries—over \$48 billion, consisting of \$10 billion in trade credits, about \$13 billion in private direct investment, \$2.2 billion in private sector purchases of multilateral bank securities, and the remainder primarily in the form of private lending.<sup>55/</sup> These financial flows are in turn dwarfed by the \$306 billion of Third World export earnings (in 1978), of which over \$142 billion is accounted for by members of OPEC and over \$163 billion by non-OPEC developing countries. Finally, all of these figures on international flows pale in comparison with total output in the Third World. In 1978, developing-country GNP amounted to almost \$1,900 billion, of which about \$380

billion was produced by members of OPEC, and over \$1,500 billion by non-OPEC developing countries. Even these estimates are likely to be underestimated considerably, given the amount of non-market transactions prevalent in many developing countries.

The purpose of presenting these statistics is not to minimize the value of official development assistance, nor to imply that the Third World is relatively well off (U.S. GNP of over \$2,100 billion in 1978 exceeded that of all Third World nations combined-including OPEC), but only to suggest that there are many sources of growth other than official assistance. If the developing nations can utilize more effectively all of their potential sources of growth, their progress will have a positive impact on Northern economies, as is illustrated by the fact that ten per cent of Third World output in 1978 was spent on purchases of goods from industrialized countries.

One of the major aspects of the NIEO is the call for Southern "collective self-reliance," or for "de-linking" from the North. This issue has led to an ongoing debate on the question of which set of countries is more dependent on the other. This debate is far less important than the practical implications of increased South-South cooperation, which will probably be beneficial to both North and South. If developing countries can raise their levels of trade, investment and other economic transactions with one another, they will diversify their own markets and reduce dependence on the North. Higher South-South linkages will probably also lead to increases in efficiency, by avoiding, for example, excess capacity in certain industries and by taking greater advantage of comparative economic strengths among developing countries.

### Economic Growth

What effect would the broad areas emphasized in the NIEO have on growth in the U.S. and the other industrial countries. On the issue of aid, it has yet to be proven that country-to-country transfers promote donor-country growth directly and immediately. In fact, as noted above, donor countries would experience some first-round sacrifices in consumption. Short-run donor country growth has never been (nor should it be) the main objective of or justification for official assistance, which should be based on humanitarian and other foreign policy grounds. There are, however, a number of reasons why aid is a positive-sum rather than a zero-sum policy. First, it is generally acknowledged that in the case of U.S. aid, something on the order of three-fourths of bilateral assistance returns to the U.S. in the form of procurement from U.S. firms. Second, a substantial portion of United States economic aid (about 34 per cent over the 1946-1979 period) has been extended in the form of loans, and about one half of these loans (\$22.6 billion out of the total \$45.5 billion extended) have been repaid. Repayments are now running at a rate of about \$1 billion per year. Third, capital subscriptions in the multilateral development banks successfully leverage substantial additional funds from the private financial sector, thus magnifying the beneficial impact on both development capital and its feedback effect on procurement. Finally, if aid flows contribute to sound development in the Third World, then the industrial countries will benefit from the emergence of new growth centers through the linkages noted above.

These and other familiar pro-aid arguments which need not be repeated, indicate that economic aid does have positive effects on growth in the donor country and that in an economic sense it is not as expensive as it may appear. However, most aid programs do incur budgetary expenditures, thereby

competing with other domestic or international programs or requiring additional tax revenues.

Regarding the implications of North-South trade on growth in the industrial countries, the essential point is that with the exception of several surplus OPEC countries, developing countries tend to spend more for imports than they earn from exports. The shortfall is financed through capital inflows and the accumulation of debt. This is exactly what would be expected to occur in the process of development, and matches the experience of the United States. Export earnings are used not only to finance imports but also to secure additional capital to fund development efforts.

Following the rise in oil prices in the early 1970s, OPEC as a whole has generated large trade surpluses, although these surpluses are concentrated in a relatively small number of countries. The non-OPEC developing countries display the more expected pattern: throughout the 1970s (and earlier) their total merchandise imports have exceeded their total exports, by an average of about 23 per cent. Lest one conclude that this was solely the result of oil-related deficits, it should be noted that their trade with industrial countries exhibits a similar pattern. Imports from industrial countries exceeded exports to industrial countries by an average of 15 per cent. This ratio would rise significantly if trade in services were added.

This broad picture indicates that trade liberalization in general, or even by industrial countries alone, will stimulate Northern growth. Developed countries derive strong benefits from the current trade structure, even though restrictions on imports are generally higher in Third World than in First World countries. Numerous quantitative studies on trade have come to the somewhat ironic conclusion that the major macroeconomic benefits derived from liberalization accrue to those countries that reduce barriers rather than to exporting

countries. Thomas Birnberg has estimated that if the industrial countries were to reduce tariffs by 60 per cent, they would achieve benefits of about \$8.5 billion, compared to benefits of less than \$2 billion for developing countries.<sup>56/</sup> Against these macroeconomic gains, of course, must be balanced the costs associated with dislocations caused by trade developments.

Mechanisms that effectively stabilize commodity prices would probably benefit consumers more than producers. Jere Behrman has calculated that if the prices of ten core commodities could be held to within 15 per cent of their trend lines, the industrial countries would receive annual benefits amounting to about \$4.6 billion, due to the macroeconomic gains associated with reduced inflationary pressures.<sup>57/</sup> By comparison, the developing-country producers would witness gains of slightly over \$0.5 billion per year. This calculation is based on the theory that inflationary shocks attributed to rising commodity prices elicit macroeconomic policies aimed at reducing inflation by contracting economic activity, hence raising unemployment and depressing real output. The presence of stable commodity prices would preclude this negative cycle by removing its initial cause. It would be appropriate to question whether or not specific commodity schemes can carry out the task they are intended to perform, particularly in light of the relatively poor performance of past agreements, but the historical instability of commodity prices is an established fact. Over the 1950-1975 period, annual prices for the ten core commodities exceeded the trend line by more than 100 per cent in four cases, by 50-100 per cent in 9 cases, by 30-50 per cent in 18 cases, and by 15-30 per cent in 27 cases. Financing commodity agreements does entail direct budgetary costs. About \$150 million of the Common Fund's \$400 million "first window" (to support commodity agreements) will be cash paid in by governments.



Many of the remaining specific economic proposals embodied in the NIEO amount to some form of transfer and as such would draw on existing or potential resources held by industrial countries. These items include debt relief, the SDR-aid "link", and automatic aid mechanisms associated with ocean resources, the sale of IMF gold, a "brain drain" tax, and tariff remittances. The potential cost of these transfers, whether budgetary or not, would obviously depend on their size. Increasing attention is being focused on proposals that do not have a direct impact on budgets, such as the plan to change the World Bank's borrowing-to-capital ratio. While the question of costs of suggested changes is a legitimate concern of industrialized countries, it should be kept in mind that many consider that the existing distribution of international "assets"—quotas, SDR allocations, seignorage rights, etc.—is biased against developing countries.

For NIEO proposals relating to structures of power in international decision-making processes, it is impossible to quantify the potential effects on Northern growth. Essentially the developing countries are calling for greater representation in those institutions, such as the GATT, the IMF, and the World Bank, which set rules for international transactions. The question here is to what extent would concrete policies and allocations change as a result of shifts in voting strengths. The GATT is a negotiating institution in which formal voting plays only a small role. Greater Third World participation would have to enter in the negotiating process itself, which is informally rather than formally structured. Higher voting strength of aid recipients in the World Bank would probably have only a marginal impact on Bank policies, although more rapid movement on proposals to increase the Bank's resources and program lending and consideration of such matters as procurement preferences could be expected. It is only within the IMF, therefore, that any

significant tensions and policy differences could be anticipated, given the nature of the Fund's operations and the built-in conflict between shareholders and borrowers. Issues such as SDR allocations, interest subsidies, and relaxation of conditionality requirements would be dealt with much more forcefully, but the operational character of the Fund suggests that movement toward NIEO reforms would continue to be relatively gradual. The Fund has in fact undertaken a significant number of reforms in the recent past under its current structure—not because of voting strength but due to the perceived merits of the reforms. Changes in voting may affect the pace at which reforms are considered and implemented, but in operational terms reforms are first examined extensively at the various staff levels before some form of consensus is reached prior to any formal adoption by directors.

#### Price Stability

Trade liberalization and commodity agreements are the two functional areas of the NIEO that would have a major impact on prices in the North. William Cline has estimated that if the United States were to cut tariffs by the full authority granted under the Trade Act of 1974, this would reduce import prices by about 4.33 per cent, and overall consumer prices by approximately 0.23 per cent. Cline concludes that the anti-inflationary effect contributes significantly to the total welfare gains (higher real output and lower unemployment, as discussed in the previous section) derived from trade liberalization.<sup>58/</sup>

Concentrating liberalization on products of importance to developing countries would result in much greater gains to consumers. Even under the existing structure of restrictions, which discriminates against such items as clothing, footwear and consumer electronics, consumers benefit significantly

from the availability of products exported by the Third World. On the basis of an actual survey of U.S. retail sales, Cline calculated that imported goods from all areas were 10.8 per cent cheaper than comparable domestic goods.<sup>59/</sup> More important, while imports from developed countries were only marginally less expensive (0.4 per cent), imports from developing countries were as much as 16.3 per cent less expensive than domestic products of the same quality. These goods are purchased and consumed primarily by families with lower incomes and hence can make a contribution to moderating the impact of inflation, particularly for the poor. In the basket of products bought by low-income families, import prices were 13.1 per cent cheaper than domestic prices. Liberalizing restrictions on these categories would result in even greater anti-inflationary gains.

Dampening price fluctuations is (or at least should be) the major objective of commodity agreements. One econometric model indicates that an increase of 33 per cent in the prices of non-fuel commodity exports from the Third World would cause an increase of about 1 per cent in the U.S. consumer price index.<sup>60/</sup> Behrman conservatively estimates that increases of 30-60 per cent in the prices of the ten core commodities might cause a 1 per cent rise in U.S. consumer prices. Assuming this range of impact, and taking into account historical commodity price trends, he concludes that imposing a 15 per cent band on prices might reduce inflationary pressure by at least 0.2-0.4 per cent for two or three years in the course of the decade of operation. While this impact might appear small, it translates into a real output gain of about \$9 billion each year for the U.S. economy.<sup>61/</sup>

The effects of other NIEO proposals on prices in industrial countries are mixed, given offsetting impacts, but their magnitude is probably small. The inflationary implications of transfers depend on where and how the transfers are

spent. In the first round, greater transfers would tend to dampen donor-country prices by reducing effective demand. However, if the funds were used to purchase donor-country goods and services, this would stimulate demand and prices. No one has yet successfully argued the case that foreign transfers would constitute a less inflationary stimulus to donor-country demand than would domestic transfers, although some suggest that targeted aid could be used to stimulate industries suffering from underutilized capacity.

With regard to financial matters, it is generally agreed that the uncontrolled expansion of international reserve assets would give rise to global inflationary pressures. Much less is known on the potential price effects of changes in the distribution of current levels of reserves.

#### Full Employment and Balanced International Payments

Nearly all of the NIEO proposals carry with them implications for employment and payments balances in the industrial countries. It is extremely difficult to come to general conclusions on balance of payments effects. A country's payments situation is a function of numerous factors which in the aggregate determine its competitiveness relative to its economic partners, and isolating the impact of reforms in this area would require extensive analysis. Any "NIEO" that does not address the question of imbalances among oil-exporters and non-oil developed and developing countries, however, is incomplete.

With respect to employment, many interpret the NIEO proposals as leading to a shift of productive capacity from North to South, which would result in a reduction of employment opportunities in the old industrialized areas. To be sure, the "structural adjustment" implied in the Lima objective (having 25 per cent of the world's industrial production located in developing countries by the year 2000,

rising from a share of about 7 per cent in 1975) is already taking place. Industrial production in a small number of advanced developing countries is growing at a much higher rate than in developed countries, and the total Third World share has risen slightly to about 9 per cent. At the same time several major Northern industries, some of which employ large numbers of workers, are faced with steady decline.

A large number of studies have focused on the domestic employment impact of trade with developing countries, and nearly all come to the same conclusions. Compared with other factors that affect employment, such as technological advances and shifts in demand, the net impact of foreign trade on total employment is minimal. One study showed that between 1964 and 1971, U.S. job opportunities lost to import competition from developing countries represented only 0.2 per cent of total manufacturing employment in the United States, or about 42,000 jobs per year.<sup>62/</sup> During the same period more than six times as many jobs (270,000) were lost annually due to technology-induced productivity increases. Another study of the direct and indirect effects of U.S. trade with developing countries between 1963 and 1975 estimated that losses of employment opportunities (about 140,000) in U.S. industries were more than offset by 346,000 job opportunities gained.<sup>63/</sup>

These studies all agree, however, that certain industries have suffered large losses in employment and will continue to do so in the future. The industries usually identified as being most sensitive to import competition are textiles and clothing, footwear, leather goods, and consumer electronics. These are the very industries that have petitioned most often in recent years for both protection against imports and trade adjustment assistance. Even though declines in certain industries are inevitable, and certain lines of economic

activity should be phased out in favor of more productive activities, advocates of more rapid change should be sensitive to the political significance of structural dislocations in the North. At the same time, if structural change is to proceed on a more timely basis, Northern policymakers will have to find more effective means for easing the burden of adjustment.

### Conclusion

Certain advocates and opponents conclude that the structural transformation implied in the NIEO will take place at the expense of the North--a recutting of the same economic pie. A strategy based on such a conclusion is neither practical nor optimal. Shifts in productive capacity (in relative terms) from North to South are best carried out in an environment of growth in both areas. Lincoln Gordon has projected that if world industrial production were to increase by an average of 5 per cent annually from 1972 to 2000 (compared to 6.3 per cent per year over the 1960-1972 period), the Lima target could be met by an industrial growth rate of 8.8 per cent in the Third World and 4.3 per cent growth rate in the developed countries.<sup>64/</sup> The proper objective for a new order should be to raise overall levels of growth to facilitate the redistribution of increases in output.

The numerous NIEO proposals can be divided into three functional categories: efficiency measures, equity measures, and "voice" measures. All countries would benefit from an injection of efficiency into the world's economic system, particularly if more adequate means for dealing with the victims of inevitable dislocations could be found. There are also persuasive arguments for greater equity in the system, especially to offer assistance to the poorest countries or sectors within them. Both equity and efficiency proposals need to acknowledge differentiation between countries in terms of needs and abilities. Finally, it is

difficult to forecast what effects greater Third World power in international economic decisionmaking might have on the system itself. Shifting from the U.S.-dominated structure following World War II to the current multipolar (OECD) structure has not taken place without tensions, but on balance it has probably led to more cooperation and better performance than would have occurred in its absence.

In the present system the principal determinant of power, both formal and informal, is economic strength as translated into shares of world trade, GNP, reserves, etc. A legitimate case can be made that political power should reflect economic power. An equally convincing argument can be made for building greater equity into decision-making processes. For example, countries accounting for some two thirds of the world's population (non-OPEC developing nations) possess only about 23 per cent of the IMF's voting shares. As with economic disparities, there is no simple formula to deal with these and other less formal disparities in power. However, if power carries with it responsibility, then it is possible that a greater sharing of power could assist efforts to achieve economic objectives.

#### The International Political Dimension

##### Objections to Basic Needs in Poor Countries

"Basic needs" has acquired a bad name in the North-South dialogue. At international meetings delegates from the developing countries have rejected the concept vehemently, based on their concern over the potential hypocrisy of such a strategy and suspicion about the intentions of aid-giving governments and international agencies. This concern and suspicion are justified because some donors have misinterpreted and abused the concept. The developing countries make the following arguments against the BHN approach:

1. It is being viewed as a substitute for growth, modernization, industrialization, and self-reliance. Industrialization has

brought wealth and power to the North, and it is felt that the rich now wish to prevent the developing countries from following the same path.

2. The slogan of basic needs has been used to justify reduced foreign aid for lack of projects and of "absorptive capacity" in the poorest countries.
3. BHN will be used to reduce aid to middle-income countries under the pretext of concentration on the poorest countries.
4. A BHN approach can be used to slow down or prevent the rapid growth of manufactured exports from the developing countries and to serve as a thinly disguised protectionist device for the established, inefficient manufacturing lobbies in developed countries.
5. The introduction of basic needs criteria lends itself to the violation of national sovereignty and of the autonomous setting of development priorities.
6. The slogan can be used as a cloak behind which to introduce irrelevant or controversial political, social, or economic performance criteria.
7. Most important of all, BHN has been used to divert attention from the New International Economic Order.

At the heart of this debate lies the controversy over whether poverty in the midst of global plenty is the result of exploitation or neglect (intended or unintended) by the rich countries and the international system, or whether it is the result of the power structures, attitudes, institutions, and policies of the developing countries.

Each of these seven criticisms reflects real concerns, but it may be possible to eliminate—or at least allay—a number of these suspicions by clarifying the basic needs concept. The following discussion addresses each criticism in turn.



1. Meeting basic human needs is not to be carried out at the expense of growth. On the contrary, growth is both an indispensable prerequisite and a result, although it is a pattern of growth that is differently composed and distributed from the dualistic and concentrated growth that has failed to benefit the poor. Nor does a basic needs approach confine itself to low or "intermediate" technology. Some highly modern technology may be required, such as satellites for aerial photography and remote sensing. Private and public investment and administrative resources have to be redirected from high-income to low-income sectors in order to raise the productivity and incomes of the latter in the service of both efficiency and equity. The work of the poor has to be made more remunerative and public services have to be radically redesigned to be more available to more people at lower cost. All this cannot be done without modernization, industrialization, and economic growth. In fact, a World Bank study concluded that, "countries making substantial progress in meeting basic needs do not have substantially lower GNP growth rates . . . and . . . the attainment of a higher level of basic-needs satisfaction appears to lead to higher growth rates in the future."<sup>65/</sup>

2. A global commitment to basic needs requires more, not fewer, international resources. International cooperation for basic needs performance is practical only if the international community provides additional resources. Provisional estimates indicate that a basic needs program aimed at providing minimum acceptable diets, safe water, sewer facilities, public health measures, basic education, and upgraded shelter would call for substantial investment and additional recurrent expenditures. Assuming the donor countries concentrate their effort on the poorest countries and contribute about 50 per cent of the additional costs of these programs, there would be a very large increase in official development assistance (ODA) flows over twenty years.

It is estimated that something in the order of \$20 billion per annum at 1976 prices would be needed for the period 1980-2000.

In 1978, total ODA flows amounted to over \$22 billion a year. Of this, the poorest countries received only about \$10 billion. Only a part of this assistance is at present devoted to meeting basic needs. Requirements would be greatly reduced, it might be argued, if all of the assistance were switched to what is agreed to be a priority objective, or if some ODA now going to middle-income countries could be redirected to the poorest countries.

The sudden redirection of aid flows would, however, be neither desirable nor possible. Middle-income countries have a higher absorptive capacity and tend to show higher returns on resource transfers. They, too, have serious problems of poverty. Moreover, a reallocation of ODA flows is politically much easier if it is done out of incremental flows than if existing flows to some countries have to be cut. The legacy of past commitments and the expectations that they have generated cannot be discarded in a few years.

There are three reasons why substantial additional resources are needed in order to make a convincing international contribution to basic needs programs in the poorest countries. First, twenty years is a very short time for a serious anti-poverty program. The extra effort—economic, administrative and political—required from the developing countries is formidable. At the same time, while an additional \$20 billion per year average over twenty years for ODA seems large, the acceleration (from the present 0.34 per cent of GNP) is certainly within the power of the donor countries. If the task is to be taken seriously by both sides, an increase of this magnitude appears to be a reasonable basis for mutual reassurance.

The second reason for "additionality" is the fact that the transition from present policies to a basic needs approach creates enormous problems. Investment projects that have already been started cannot suddenly be terminated. Attempts to switch to basic needs programs while the structure of demand and production has not yet been adapted to them are bound to create inflationary and balance-of-payments pressures. There might be capital flight and added "brain drain" as social groups that anticipate being hurt attempt to safeguard their interests. There might be strikes from disaffected workers in the organized industrial sector. Unless a government has some reserves to overcome these transitional difficulties, the attempt to embark on a BHN program might fail on political grounds.

The third reason is tactical and political. Developing countries are suspicious of BHN in part because they believe that pious words conceal a desire to opt out of development assistance—and there is no doubt that some people in the developed world see BHN as a cheap option. If the international commitment to meeting basic needs within a short period is to be taken seriously by the developing countries, the contribution by the developed countries must be additional and substantial.

3. While the bulk of incremental development aid should be devoted to the poorest countries committed to a basic needs approach, some extra aid should be available for middle-income countries with pockets of poverty. An essential rationale for the BHN approach is that basic needs may be unmet at quite high income levels and adequate income is not enough to eliminate deprivation. In addition, better access to capital markets, more liberal trade opportunities, and loans at commercial interest rates are the appropriate forms in which the international community can contribute to increasing the resources and thereby the ability to meet basic needs in the middle-income developing countries.

4. As the examples of Taiwan, South Korea, and Singapore indicate, labor-intensive exports can be a powerful instrument for creating jobs and therefore for combining high growth rates with basic needs fulfillment. The emphasis on agriculture and the rural sector is not in conflict with export-led industrialization; on the contrary, it is a necessary condition for it.

5. It is possible to combine full sovereignty and autonomy with a targeted approach to BHN by evolving buffer institutions or buffer processes that both protect the developing country's sovereignty and ensure the achievement of the donors' BHN priority by channeling funds in the right direction and by monitoring BHN performance.<sup>66/</sup> Multilateral institutions are particularly suited for this role. Developing countries themselves could monitor each other's implementation of basic needs programs financed by donor countries, as was done in the Marshall Plan.

6. The way to avoid the intrusion of irrelevant criteria into aid transactions is to channel aid through the multilateral institutions in which developing countries are fairly represented.

7. The main developing-country apprehension about basic needs is that the approach adopted by donors implies sacrificing features of the New International Economic Order. How is an international basic needs approach to be implemented in a manner consistent with the spirit of the NIEO?

The solution is to be found in the strengthening of existing, and the evolution of new, institutions and procedures that are acceptable to both donors and recipients, and that ensure that international aid reaches the vulnerable groups. Such buffer institutions and buffer processes would combine full national sovereignty with basic needs priority. They would be representative, independent, and genuinely devoted to the goals of international cooperation.

It is clear that only multilateral or extra-national institutions can meet all these conditions. But reform may be required on several issues. The distribution of votes must be such that the developing countries feel that they are fairly represented. The selection, recruitment, and training of members of international secretariats must be of a kind that transcends narrowly national loyalties but is sensitive to the social and cultural issues in developing countries. Both narrow technocracy and an excessive politicization of issues would have to be avoided. This may seem to be a prescription for perfection, but international institutions and their secretariats have in some instances approximated these ideals. Unless they do, there is little hope of implementing BHN in the framework of the NIEO.

#### Objections to Basic Needs in Rich Countries

Enthusiasm for a basic needs approach is by no means universal among the advanced countries either. The principal reasons for opposition to the implementation of a basic needs approach to development among officials, politicians and academics in donor countries and agencies can be summarized as follows:

1. The approach would sacrifice investment, output, productivity, and growth for the sake of current consumption and welfare transfers, which only rich countries can afford.
2. Donors respond to developing countries' requests, and the latter's response to BHN is, at best, lukewarm; at worst, hostile.
3. There is nothing new except the label; it is already being done under the banner of poverty-orientation, employment-creation, or rural development.
4. Implementation of a BHN strategy is constrained by political obstacles inside the developing countries, and there is nothing the international community can do about that.

5. BHN is often interpreted as requiring state intervention in the market, and the numerous defects of bureaucratic interference are too well known to need rehearsing; consumers are the best judges of their needs, markets are quite efficient instruments of allocation, and the paternalism implied by BHN is unacceptable.
6. BHN has paid inadequate attention to the problem of transition; inflation, capital flight, strikes, and even coups d'etats are liable to prevent a government from achieving BHN.
7. BHN has no analytical content and is largely rhetorical or polemical; no one can dispute the desirability of the objective, but implementation is either fuzzy, or, where spelled out, inefficient, unsuited to achieving the declared objective, and possibly counterproductive.

Brief replies (some of which are more fully discussed in other contexts) would be along the following lines.

1. The first criticism is not valid. The logical precedence of ends over means in no way implies that means can be neglected. Although there is a welfare component in BHN, to meet basic needs on a sustainable basis calls for considerable investment and growth, although differently composed and distributed (and measured) from much past growth. Growth is also required to meet the rising standards of established needs, as per capita income grows, and to achieve objectives other than basic needs.

The basic needs approach is a way of doing more and doing better with fewer resources: low-cost preventive medical services for all instead of high-cost curative services for a few; low-cost primary education in the village instead of high-cost urban tertiary education for the privileged. Economy in the use of existing resources, and augmentation of these resources through productivity

increase, fertility decline, and mobilization of local underutilized resources are important resource-saving and resource-augmenting aspects of BHN.

2. Donors can select for assistance those countries that are themselves eager to embark on a basic needs approach. Even where there is resistance, some degree of solicitation of requests can shift development programs in the direction of greater emphasis on BHN. Recipient governments are rarely monolithic, and aid and dialogue can support those internal forces that are anxious to meet basic needs within a short time.

3. While BHN comprises a good deal of accumulated experience and knowledge, it does contain some distinctive and novel features. They can be best summarized as the need for redesigned public services, complementing improved earning power, far more attention to activities inside the household, and far greater emphasis on self-management and local mobilization of resources. There is also the concrete focus on meeting specific needs of vulnerable groups, which have tended to be neglected by previous, more general approaches.

4. It is true that some of the most severe constraints are political, but these should not be regarded as intractable. The encouragement of reformist alliances, both by country selection and dialogue, can remove some of these obstacles.

5. The question of how much "supply-side management" in the form of market intervention is necessary should be treated as empirical and should be answered pragmatically, not ideologically. The deficiencies of bureaucratic controls are well known. At the same time, market imperfections in the widest sense have often prevented market responses to private purchasing power, even where income was fairly evenly distributed. The BHN approach is not derived from a paternalistic ideology, although it acknowledges that consumers are subject to all kinds of

pressures—from advertisers, consumption patterns of groups they wish to emulate, and so forth—against which countervailing pressures can legitimately be mobilized.

6. Examples of attempts at radical reform that have failed demonstrate that careful thought has to be given to the political and economic problems of the transition from a society in which large inequalities in the distribution of assets, income, and power prevail and deprivation is widespread to one in which basic needs are met. Inflation, capital flight, brain drain, or disruption of production by disaffected groups are dangers that can frustrate a BHN approach before it has progressed very far. These threats point to the need to work carefully through the macroeconomic implications, both domestic and international, of the transition to BHN strategies.

7. The criticism that BHN lacks analytical content is probably of greater concern to academic economists than to people concerned with getting things done. It also happens to be untrue, for BHN calls for a complex analysis of externalities in cross-sectoral linkages, both to reduce costs and to improve the impact on meeting needs.

It may be that some of the approaches that are intended to meet basic needs will be inefficient or even counterproductive. "Trickle-up" and "government failure" or "bureaucratic failure" (corresponding in the public sector to "market failure" in the private sector) are bound to occur in delivery systems and some trade-offs with more conventional objectives may have to be accepted. But in view of the lack of success of many previous approaches in reaching the deprived, experimentation with new methods should be welcomed.



## V. TOWARD RECONCILIATION AND COOPERATION

### Terminological Conflict and Potential Reform

Language is a powerful stimulus—or stumbling block—to improved relations between individuals or nations. Words considered by some to be neutral, direct, or conciliatory appear to others to be demeaning, evasive, or uncompromising. Terms containing hidden meanings or values pique sensitivities and detract from the possibility of achieving common ground. New vocabularies often have to be invented if old terms become burdensome, but new terms quickly lose acceptability if they come to be viewed as mere substitutes for concepts previously discarded under different names.

A plethora of concepts and terms have been coined by development theorists and practitioners over the years—some have been new, some have been restatements of the old. The concepts have affected both development strategies per se and North-South relations. A few have gained wide currency, but all have been subjected to scrutiny as to their validity and potential abuse. Much of the controversy surrounding basic needs "versus" NIEO stems from reactions to past terminology and the implicit or explicit meaning implied by that language.

### Uses and Abuses of Language in Development Thinking and the Dialogue

Discourse on complex issues inevitably leads to the creation of terminology which acts as a shorthand to summarize arguments being presented. Acronyms and catchwords are employed—often to the consternation of those not familiar with them—to convey ideas, concepts, and proposals without having to cover familiar ground. Scientists speak of vector analysis and semiconductors, economists of Keynesian and supply-side theory, and political scientists of the new Right and the Great Society programs.

Shorthand terminology does serve several purposes: to streamline discussions; to avoid the necessity of repeating arguments, thereby moving more quickly to areas deserving fuller treatment; and, perhaps most importantly, to provide expressions to rally support by conjuring up imagery and commonly identified positions. But several dangers are inherent in the employment of abbreviated terms in substantive debate. First, verbal expression is often imprecise, and failure to place common meanings on commonly used language can lead to misunderstandings. Second, terms and concepts can become value-laden, often to some participants but not others, thereby inhibiting discussions of matters where real consensus or conflict lie. Third, terminology can take on a life of its own, and rather than the underlying issues initially being addressed, can become the substance of the debate.

The development field itself has witnessed wide swings in theoretical concept and policy emphasis since the belief was established that the process of economic and social change could be accelerated through government interventions. Changes occurred when the results of previous strategies proved disappointing, and the nomenclature evolved to reflect these changes. Initial attention was focused on "industrial transformation," based on various formulations of the "stages of growth." Developing countries were advised to maximize capital formation, generate a "take-off" of the manufacturing sector, and spread the benefits of industrialization through the "trickle-down" of output and demand. When actual progress failed to meet expectations, increased intervention and "planning" in developing countries came into vogue, even though these remained anathema to many industrial-country policy makers. Closely tied in with the industrial strategy has been the recommendation for Third World nations to switch from "import-substitution" to "export-promotion" trade policies in